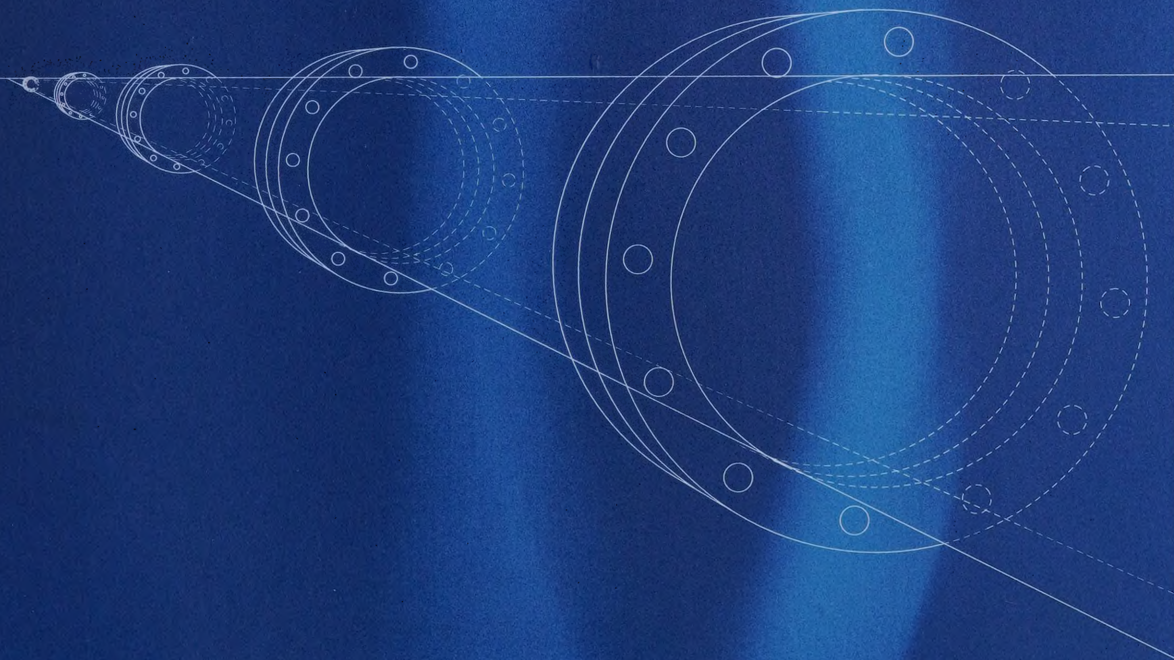
a clear focus

AND A STRONG PORTFOLIO OF GROWTH OPPORTUNITIES



BC GAS INC. ANNUAL REPORT 99

Natural gas distribution | Energy and utility services | Petroleum transportation

A year ago, we set out a focused strategic framework for growing our business in a changing environment for energy and utility services. During 1999, we executed major portions of our plan and now have a number of opportunities underway that take advantage of our strengths in natural gas distribution and petroleum transportation. We are using our knowledge and expertise as we strive to deliver superior returns to our shareholders and value to our customers.

Contents

1999 PROGRESS

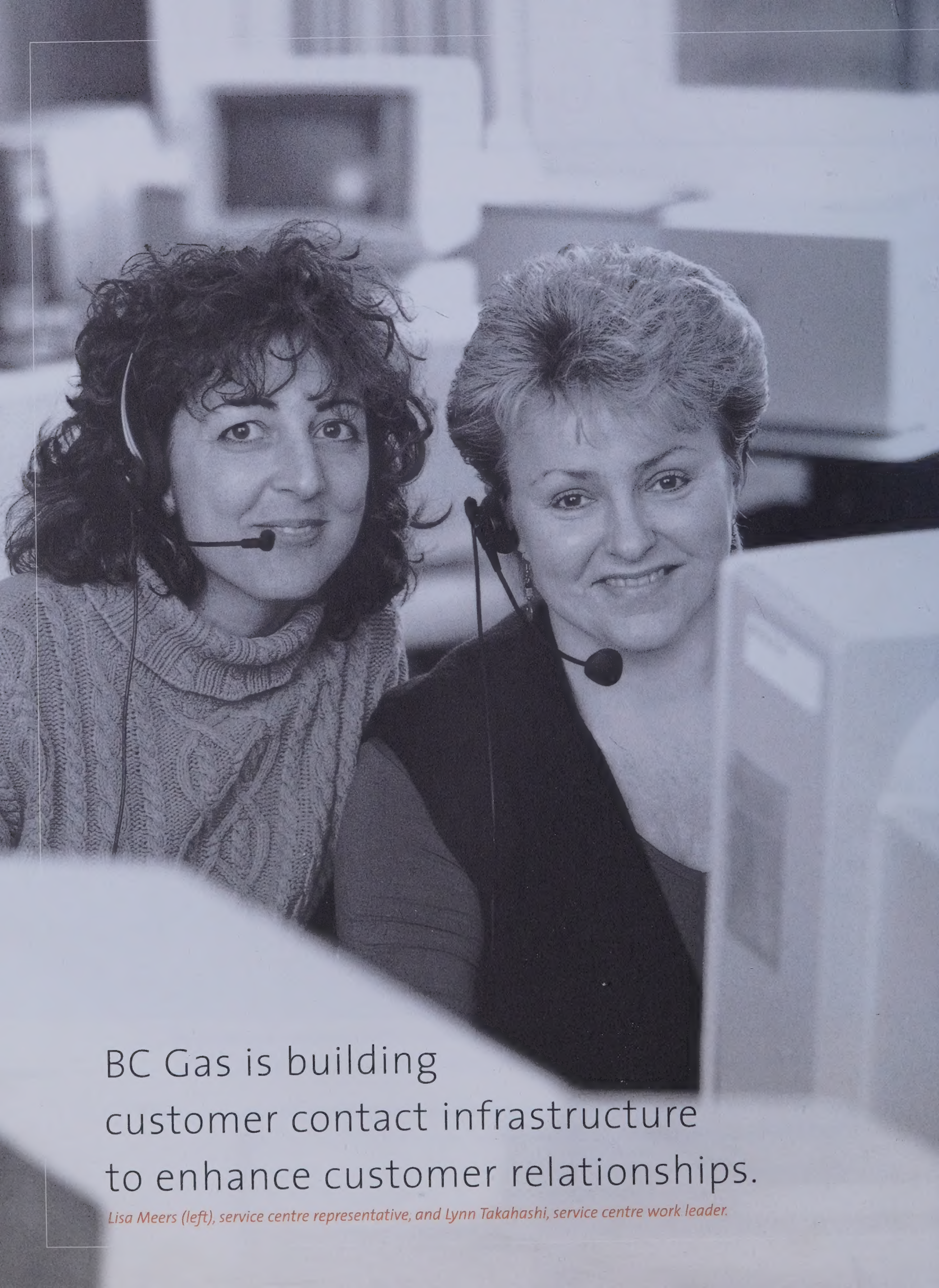
In 1999 BC Gas received approval to proceed with projects that, when completed, will increase the Company's asset base by one-third.

- Finalized approval and commenced construction of the Southern Crossing Pipeline, a 316-km transmission pipeline that will provide access to alternative sources of natural gas for B.C. consumers.
- Finalized approval to construct and operate the Corridor Pipeline system, a central component of the Athabasca Oil Sands Project. The 439-km pipeline will transport bitumen from Fort McMurray to Edmonton.
- Broadened the capabilities and scope of our multi-utility businesses with the acquisition of two water supply and service companies.
- Monetized the Company's interest in the 66-megawatt power plant at Williams Lake, British Columbia.

PLANS FOR 2000

BC Gas is expanding the base businesses, building a suite of multi-utility businesses and strengthening retail offerings for customers.

- Negotiate new incentive-based regulatory agreements for BC Gas Utility and Trans Mountain Pipe Line to take effect January 2001.
- Complete construction of the Southern Crossing Pipeline, targeted for an in-service date of November 2000.
- Commence the initial phase of construction of the Corridor Pipeline Project, targeted for an in-service date of late 2002.
- Grow the Company's suite of multi-utility businesses through further acquisition of water supply and service companies and by expansion of measurement and other utility services.
- Continue to strengthen our market position with an enhanced image and service platform, improved customer care and billing interfaces and an expanded range of products and services.



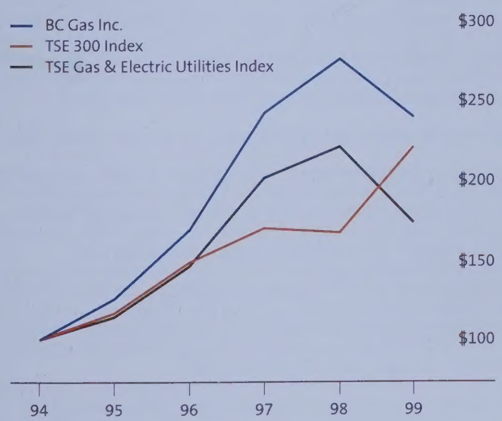
BC Gas is building customer contact infrastructure to enhance customer relationships.

Lisa Meers (left), service centre representative, and Lynn Takahashi, service centre work leader.

Financial Highlights

Years ended December 31 *(Dollar amounts in millions except per share data)*	**1999**	1998	1997
Gross revenues	**$ 1,040.6**	$ 925.0	$ 933.9
Net earnings before non-recurring items	**$ 74.2**	$ 71.2	$ 65.2
Net earnings	**$ 81.2**	$ 71.2	$ 50.8
Total assets	**$ 2,450.5**	$ 2,466.1	$ 2,388.1
Earnings per share before non-recurring items	**$ 1.94**	$ 1.85	$ 1.63
Earnings per share	**$ 2.12**	$ 1.85	$ 1.27
Dividends per share	**$ 1.165**	$ 1.090	$ 0.975
Book value per share	**$ 16.36**	$ 15.42	$ 15.05
Return on equity	**12.2%**	12.1%	10.7%

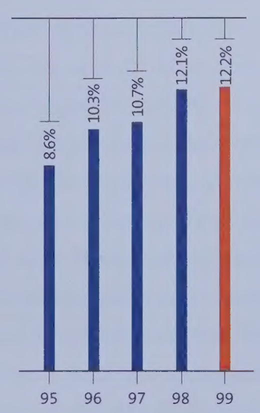
SHAREHOLDER RETURN



Return on an investment of $100 in 1994, assuming reinvestment of dividends.

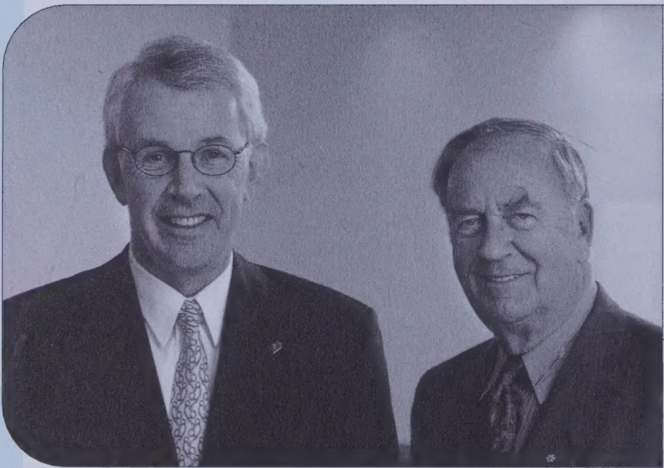
Despite a lower allowed return on equity for BC Gas Utility and lower throughput on Trans Mountain's system during 1999, BC Gas Inc. outperformed the gas and electric utilities index for the fifth consecutive year. Dividends to shareholders for the year were $1.165 cents per share, up seven per cent from 1998.

RETURN ON EQUITY



Return on equity is a key measure of BC Gas' business and financial performance. Our goal is to deliver an annual return on equity of 12 per cent.

Letter to Shareholders



Ronald L. Cliff, Chairman (right)
John M. Reid, President and Chief Executive Officer

With the monetization of the Williams Lake power generating plant in 1999, the Company completed its program of divesting non-core assets. All of our activities are now focused on our base businesses and on growing from our capabilities and market positions.

1999 was a year of significant achievement for BC Gas. In addition to meeting our financial targets, we received approval to proceed on two highly strategic capital projects and made important moves for future growth. We continue to implement a focused corporate strategy, concentrating on activities that will provide attractive rates of return to our shareholders within an acceptable level of risk.

Our strategy is based on three corporate goals:

- To secure and expand our core businesses of natural gas distribution and petroleum transportation
- To leverage our expertise by expanding our presence in the multi-utility business, specifically water and electricity distribution
- To deliver new products to our existing customers

This past year we divested the last of our non-core assets with the monetization of the Williams Lake Power Plant. The Company is now entirely in the business of energy transportation and utility services and we are actively pursuing opportunities to strengthen our presence in these areas.

SECURE AND EXPAND BASE BUSINESSES

For the foreseeable future, the major portion of our earnings will continue to come from our base distribution and transmission businesses. Our success here will depend on asset infrastructure development, a supportive regulatory framework and ongoing productivity improvements.

We are extremely pleased with having received approval to build two major pipeline projects. Together, the Southern Crossing Pipeline and the Corridor Pipeline will add $1.1 billion to the Company's asset base over the next three years. In addition to meeting our financial risk and return profile, these two projects represent an excellent fit with our goal to expand the base business. The Southern Crossing Pipeline project will give BC Gas Utility customers access to alternative sources of natural gas while the Corridor Pipeline enables the Company to participate in the development of the world's largest deposit of heavy oil.

While we were disappointed last year with a change in the formula used to set the allowed return on equity for the gas utility, we are encouraged by our excellent working relationship with the B.C. Utilities Commission. Both BC Gas Utility and Trans Mountain are in the final year of multi-year regulatory arrangements. We are proactively discussing the format of new arrangements with our regulators and other interested parties, with the aim of securing new multi-year settlements that offer ongoing benefits for shareholders and

customers alike. Our current arrangements have enabled us to achieve incremental returns for our shareholders and create value for our customers and at the same time have helped mitigate shareholder risks posed by changes in weather and throughput volumes.

We continue to realize financial benefits from ongoing productivity improvements and are committed to enhancing the capabilities of our workforce, including making changes to our compensation and employee development programs as well as increasing our internal communication efforts. In 1999, we developed a series of strategic measures, known as the "Corporate Scorecard". The scorecard will allow employees to see how well the organization is doing across a dozen important measures of success, enhancing employee understanding of corporate direction and priority. We are also investigating opportunities presented by electronic web-enabled commerce, both in terms of its ability to reduce administrative costs and to deliver enhanced customer service.

GROW MULTI-UTILITY BUSINESS

The potential in the multi-utility arena of water, electricity and gas distribution is excellent, and we are proceeding in a way that takes advantage of our core competencies. With respect to the water business, our emphasis is on waterworks supplies and services, rather than large-scale infrastructure projects. Our acquisition of three waterworks companies in 1999 and early 2000 places us in a strong position to capture much of the emerging market for water treatment, distribution and metering. While it will be a number of years before we see measurable growth in this market, we expect our water business to realize annualized revenues of over $80 million by the end of 2000. We are also actively seeking opportunities to enter into the electricity distribution business.

Advances in the metering and measurement of energy and water are also presenting a number of opportunities to provide service to municipalities, developers and industrial customers. Our measurement technology group has partnered with Invensys, a global supplier of meters, which will allow both parties to deliver integrated meter supply, management and maintenance services throughout North America.

We believe there are three factors that set BC Gas apart from other pipeline and utility companies. First, we are highly focused on businesses that are consistent with our core competencies in natural gas distribution and petroleum transportation. Second, we are low risk, even by the standards of utilities. Third, we are pursuing excellent growth opportunities that are in line with our competencies and risk profile.

The Company continues to leverage our core competencies into service opportunities in Canada and internationally. We completed several non-regulated energy utility projects in British Columbia and are building solid relationships with our municipal customers for future benefit. In early 2000 and together with a local partner, we were also awarded the $40 million Phase 2 gas distribution construction project in the United Arab Emirates, an accomplishment which reflects our successful execution of Phase 1 of the project, due to be completed in March 2000.

DELIVER NEW PRODUCTS AND SERVICES

We are taking a measured approach to developing and delivering new products and services to existing customers. We are building the infrastructure necessary to deliver products and services to residential customers, including

implementing new customer care centre and billing technology, launching an advertising image and awareness campaign, forming alliances with energy services dealers and contractors, and enhancing our retail efforts using the Internet. At the same time, we are developing residential home energy services, such as residential energy audits and heating equipment services.

As part of our retail growth strategy, we appointed Michael Sharp, our new Senior Vice President, Residential Customers to the executive team. Michael brings an extensive background in retail marketing in a deregulated utility environment and will provide synergy to all parts of the business that interact with the residential customer.

FINANCIAL RESULTS

Our financial results for 1999 reflect a year of focused, concerted effort. Earnings per share before the income tax benefits from NW Energy were up from $1.85 in 1998 to $1.94 in 1999 with 1999 total earnings per share at $2.12. We are encouraged by our ongoing superior shareholder return performance relative to both our utility peer group and the TSE 300 Index over the past five years.

We welcome to our Board of Directors Douglas Whitehead, President and Chief Operating Officer of Finning International Inc., and David Emerson, President and Chief Executive Officer, Canfor Corporation. They join other board members, our executive team and employees in creating a results-oriented organization that is fully-aligned to our strategic goals. In 2000 and beyond, we look forward to continuing to strengthen our base businesses, pursue a strong portfolio of low-risk growth opportunities and deliver attractive returns to our shareholders. Our objectives are achievable with the continued resourcefulness, ingenuity and commitment of all BC Gas employees and partners.

R. Lawrence Cliff   J.M. Reid

Ronald L. Cliff
Chairman

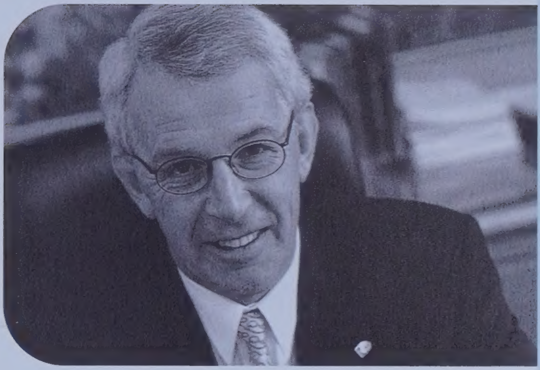
John M. Reid
President and
Chief Executive Officer

March 8, 2000

Net Earnings (Loss)
(in millions of dollars except per share amounts)

Years ended December 31	1999		1998	
	$	**Per Share**	$	Per Share
Natural gas distribution	**$ 51.7**	**$ 1.35**	$ 51.8	$ 1.35
Petroleum transportation	**19.5**	**0.51**	22.9	0.59
Other activities	**3.0**	**0.08**	(3.5)	(0.09)
Earnings before income tax benefits from NW Energy	**74.2**	**1.94**	71.2	1.85
Income tax benefits from NW Energy	**7.0**	**0.18**	—	—
Net earnings	**$ 81.2**	**$ 2.12**	$ 71.2	$ 1.85

Questions & Answers



BC Gas President and CEO John Reid answers some of the questions asked by our shareholders.

How do you assess BC Gas' business performance in 1999?

1999 was a very good year for BC Gas. Financially, we overcame several challenges and delivered continued earnings growth. Operationally, we successfully implemented new information technology and continued to improve our safety record. Strategically, we made significant progress on all three of our growth strategies. We continue to deliver on our value proposition: focus on our core businesses, a low risk profile and strong growth opportunities.

Given the Company's strong business performance, can you comment on BC Gas' share price performance in 1999?

Utility stocks are sensitive to changes in interest rates and just as utility stocks increased in 1997 and 1998 as interest rates fell, stock prices in the sector dropped as interest rates increased from 5.2 per cent to 6.3 per cent in 1999. For the year, BC Gas' total return (including dividends) was –13.8 per cent, compared with a –21.2 per cent return for the Gas and Electric Utilities Index on The Toronto Stock Exchange. BC Gas' total return outperformed every other pure pipeline and utility company in Canada in 1999, a reflection of our business performance.

Why do you emphasize risk as an important factor?

In maximizing shareholder value, managing risk is as important as increasing return. Our earnings base is substantially comprised of regulated assets with very low levels of shareholder exposure to factors such as weather and commodity price variability. We look to build on the regulated returns associated with these lower levels of risk by creating ongoing value under incentive-based regulatory arrangements.

What do you see as the primary drivers of growth in the near future?

The two major infrastructure projects now underway – the Corridor and Southern Crossing pipelines – will provide solid earnings growth over the next three years. In addition, an ongoing value focus in our core businesses and the expanding opportunities in the multi-utility and retail markets will provide additional real growth.

A Solid Business Plan

Business	Description	Growth Strategy
NATURAL GAS DISTRIBUTION	BC Gas Utility is the largest distributor of natural gas serving British Columbia.	**Strengthen and Expand our Base Businesses**
ENERGY AND UTILITY SERVICES	BC Gas is pursuing opportunities in transmission, distribution and services associated with natural gas, water and electricity.	**Grow our Multi-Utility Business**
	The Company is building on its base of 756,000 customers by providing packages of home comfort services.	**Deliver New Products to Existing Customers**
PETROLEUM TRANSPORTATION	Trans Mountain Pipe Line owns and operates the only pipeline transporting crude oil and refined petroleum products from Alberta to British Columbia and Washington State.	**Strengthen and Expand our Base Businesses**

Major Initiatives

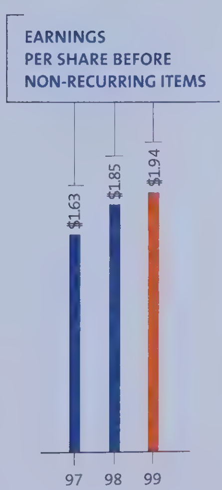
Construct and operate Southern Crossing Pipeline in southern B.C., providing access to alternative sources of natural gas. Targeted in-service date: November 2000.

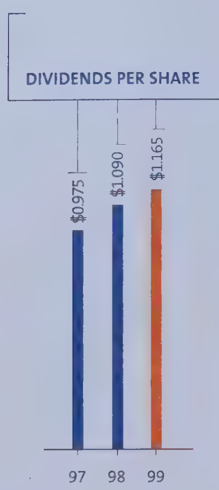
Increase the scale and scope of the water supply and services business. Develop a business providing management and maintenance of measurement assets for utilities across North America.

Build supporting infrastructure and broaden the base of home services.

Construct and operate Corridor Pipeline from the Athabasca Oil Sands Project, under development near Fort McMurray, to the Edmonton area. In-service date: late 2002.

BC Gas is expanding the base business with the construction of the Southern Crossing and Corridor pipelines. The Company is focused on becoming the dominant provider of multi-utility services in the Pacific Northwest.





The Southern Crossing Pipeline provides BC Gas an excellent opportunity to expand and grow our base business.

Natural Gas Distribution

In May 1999, BC Gas received approval from the British Columbia Utilities Commission to construct and operate the Southern Crossing Pipeline, a 316-km transmission pipeline that will parallel existing BC Gas pipelines to access alternative sources of natural gas. The pipeline strengthens and expands the Company's natural gas distribution system and is a key component of the Company's plan to expand the base business.

As part of the approval, BC Gas agreed to limit ratepayers' obligations to 10 per cent of any cost overruns. Southern Crossing is targeted to be in service by November 1, 2000 with an initial capacity of 250 million cubic feet of natural gas per day. The Company is committed to employing local suppliers as much as possible in construction of the pipeline.

With start-up of the Alliance Pipeline in the fall of 2000, large volumes of natural gas from northern B.C. will be exported to eastern markets, resulting in supply and price pressures. Southern Crossing will help to alleviate these pressures by providing access to natural gas produced in Alberta. In the meantime, the Company continues to carefully manage gas purchasing activities to reduce price volatility for customers in a very dynamic gas commodity marketplace.

NATURAL GAS PRICE

The cost of natural gas continues to rise, reflecting growing export capacity from Western Canada and the relative value of natural gas compared with other fuels. Western Canadian natural gas prices have doubled in the past few years, and remain high due to a strong North American economy and continued growth in electricity generation demand. Because

SOUTHERN CROSSING PIPELINE
OTHER NATURAL GAS TRANSMISSION PIPELINES
BC GAS UTILITY LTD.

When completed in November 2000, Southern Crossing Pipeline will provide customers with access to alternative sources of natural gas. The pipeline strengthens BC Gas Utility's natural gas distribution system and is a key component of the Company's plan to expand the base business.

OPPOSITE PAGE: Southern Crossing project management team (from left): Art Kanzaki, assistant project director, Guy Wassick, project manager, compression, and Bill Manery, project director.

Natural Gas Distribution

of the higher price, from January 1999 through February 2000 the Company was required to implement three rate increases totalling 29 per cent. The increases were related almost exclusively to the higher commodity price charged by producers. The price paid by BC Gas for natural gas is a flow-through cost directly recoverable from customers.

BC Gas is implementing a new technology platform to realize operating efficiencies, improve the Company's information base and provide the infrastructure to support strategic initiatives. The following initiatives are underway:

- Digital mapping of the pipeline system
- Automated dispatch of field operations
- Upgraded business information system
- Upgraded customer billing system
- Expanded electronic commerce offering

INCENTIVE-BASED AGREEMENT

The Company continues to operate under an incentive-based agreement, which expires December 2000, where initiatives that minimize the cost of natural gas and operating efficiencies are shared between customers and shareholders. The Company has proposed a one-year extension of the agreement through 2001, with a new multi-year agreement to be implemented in 2002.

DIRECT NATURAL GAS PURCHASE

Over the past year, the Company and a number of interested parties actively explored an arrangement that would allow residential and small users to purchase natural gas directly from suppliers other than BC Gas and use BC Gas' system to transport the commodity.

Direction from the British Columbia Utilities Commission on this arrangement is anticipated in the spring of 2000.

CUSTOMER FOCUS

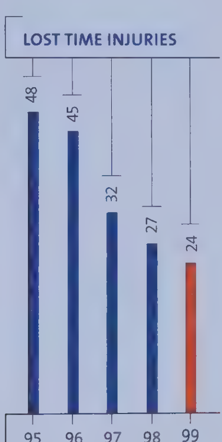
BC Gas Utility's business is founded on delivering superior value to customers so that given the choice, they will choose to remain our customers. To this end, during the year the Company was reorganized along customer lines to develop ongoing relationships with specific customer groups and strengthen the customer orientation throughout the organization. In addition, a senior executive with a customer services background was appointed to provide continuously increasing value to the Company's residential and small commercial customers.

An image campaign launched in the fall of 1999 is generating awareness of BC Gas Utility's ability to provide resourceful and innovative solutions for customers. This increased awareness and market positioning are fundamental as the Company seeks to sell new products and services to its base of 756,000 customers.

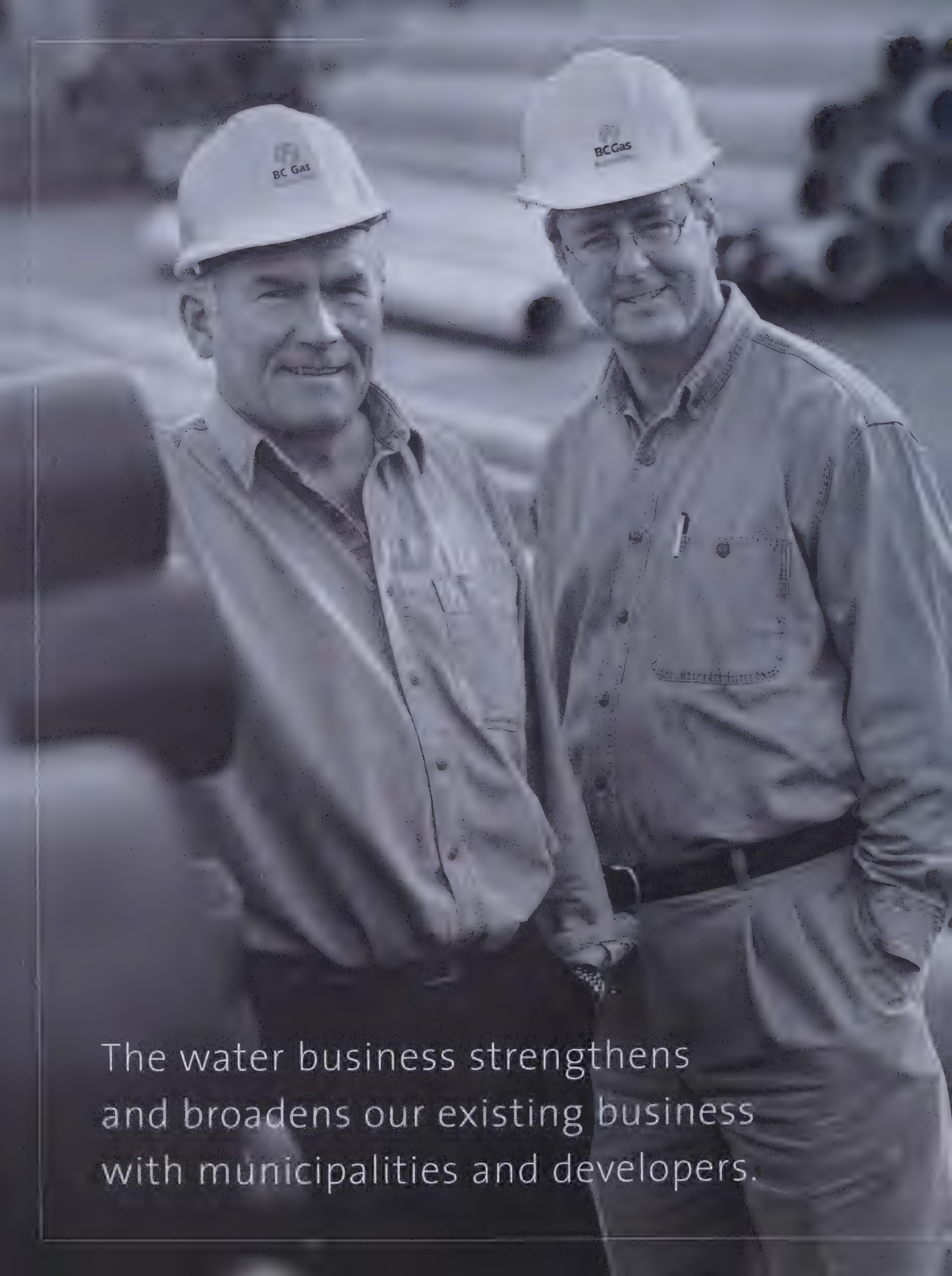
The Company is continuing to develop a new customer management infrastructure, based on a new customer information system (CIS) and call handling technologies, designed to increase efficiency and enable the Company to respond faster and more effectively to customer needs. Following a successful pilot project, completed in early 1999, the new customer information system is being implemented throughout BC Gas Utility's service area in 2000 and 2001. The new CIS will support retail commodity deregulation and sales of the Company's commodity and non-commodity retail offerings while increasing the number of contacts with individual customers.

Employee and customer safety is a key performance measure at BC Gas Utility. In 1999 employee lost time injuries decreased 11 per cent from the previous year while preventable vehicle accidents were down 24 per cent.

From a public safety perspective, the Company maintained steady communications with customers to raise awareness of the safe use of natural gas. In addition to conducting a wide variety of safety programs across the province, the Company is working with customers in communities with severe winter conditions to safeguard natural gas meters from snow and ice.



In 1999 lost time injuries among Utility employees were down 50 per cent from four years ago, reflecting the Company's objective of continually improving employee safety performance.



The water business strengthens and broadens our existing business with municipalities and developers.

Energy and Utility Services

BC Gas is taking a focused and measured approach in growing its multi-utility businesses where the Company can create value by building on its core utility expertise. While these businesses are future-oriented and represent a small portion of the Company's activity, the Company sees strong promise in the water services industry and the emerging field of measurement technologies.

WATER BUSINESS

In 1999 and early 2000, the Company secured a solid presence in the water business by acquiring three companies with established track records and complementary operations in Alberta and British Columbia. Western Water and Sewer Supplies, based in Calgary, distributes waterworks materials, ranging from pipes and valves to fire hydrants, to municipal, industrial and irrigation markets throughout Western Canada. CPI Equipment, of Langley, B.C., specializes in providing water supplies to the agricultural and aquacultural markets primarily in the Greater Vancouver area and on Vancouver Island, and services the upstream water infrastructure market. The Company has merged the two operations and plans to acquire additional water supply and service operations over the coming year as it expands its presence in the Pacific Northwest.

Revenues from the Company's water business were being generated at an annualized rate of $40 million at the end of 1999 and are anticipated to double to around $80 million on an annualized basis in 2000.

WATER INDUSTRY PERSPECTIVE

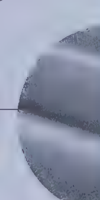
The water services business across North America is undergoing significant change as municipalities as well as other large users such as institutions and industrial customers move to outsourcing and privatization of water infrastructure and the services around it. The use of outside resources to install and operate water infrastructure provides more professional management and cost effective services and recognizes that water is an increasingly valuable resource.

BC Gas Position

The Company is establishing a regional water supply and services business in Western Canada and the Pacific Northwest to supply materials for water and sewer infrastructure and specialized utility-related services for municipalities, developers and other large users. In addition to providing attractive earnings, this business strengthens and broadens BC Gas' existing relationships with these customers in measurement technologies and natural gas distribution.

ENERGY SERVICES

Since 1997, the Company has been actively involved in providing energy-related utility services throughout British Columbia to customers that fall outside the gas utility's scope of services or are located outside the utility's service area. This includes the design and development of energy-related infrastructure, delivery of commodity, and provision of other services for natural gas, propane and liquefied natural gas (LNG). In 1999, the Company undertook a number



OPPOSITE PAGE: *Dick McNichol, general manager, Utility Services, BCG Services Inc. (left) and Iain Johnstone, general manager, Utility Supply and Energy Services, BCG Services Inc.*

Energy and Utility Services

of energy projects, including installing natural gas distribution systems near Squamish and at Silver Star Ski Resort, propane systems at Sun Peaks Resort and Panorama Resort, and LNG at a sawmill operation. The energy services business offers customers within the Pacific Northwest service area a complete range of energy, water and sewer supplies and services.

MEASUREMENT TECHNOLOGIES

The Company is developing a non-regulated business providing full life-cycle management and maintenance of measurement assets for natural gas, water and electric utilities across North America. As the only measurement group in Canada certified under ISO 9002, as well as being accredited nationally by Measurement Canada, the group is well-positioned to take advantage of new federal requirements mandating natural gas and electric utility measurement equipment to be certified by local accredited firms.

Over the past year, Measurement Technologies won contracts to service meters for a number of utilities and municipalities in British Columbia. The group is pursuing similar opportunities in Alberta and the U.S.

In 1999, Measurement Technologies and Invensys plc, a major U.K. and U.S.-based manufacturer of measurement equipment, formed Measurement Solutions International (MSI), a joint venture to help utilities, municipalities and energy-service providers in North America optimize their energy measurement system assets. MSI will provide lower cost integrated measurement services, enabling energy providers to improve accuracy in measuring contracted energy volumes and end user consumption.

MEASUREMENT TECHNOLOGIES INDUSTRY

Rapid deregulation of utility services in the United States provides a number of opportunities to optimize energy assets. Unlike Canada, where compliance with measurement equipment and consumption is mandated by federal legislation, many U.S. states are just beginning to address issues related to measurement information and accuracy.

BC Gas Position

BC Gas is developing a measurement technologies business aimed at servicing the measurement needs of natural gas, electricity and water utilities. The Company is a partner in a joint venture to help energy measurement system providers in the U.S. optimize their energy measurement system assets.

RETAIL ENERGY SERVICES

Home*works*® augmented its home heating business over the past year through a strategic alliance with Lennox Inc., a leader in the air conditioning and heating industry. The alliance broadens Home*works*® delivery capabilities and market coverage while providing association with Lennox's reputation for quality, experience and longevity of heating equipment. The two companies are developing a strong presence in British Columbia's evolving retail market for home heating services and products such as furnaces, hot water tanks and energy audits and retrofits.

To increase awareness of its home comfort products and services, Home*works*® launched a revised marketing campaign in the fall targeted to the identified needs of its three customer segments. The Company's energy-related renovation business increased by 20 per cent over the previous year, reflecting increased awareness and the Company's reputation for quality work and service. During the year, the number of authorized renovation contractors in the Home*works*® network continued to increase.

In addition to its home heating, energy renovation and financing programs, Home*works*® is experimenting with a number of new products and services around its core brand values. By early 2001, customers will be able to access products and services through the Internet.

Home*works*® intends to be among the early industry leaders of the home comfort services organizations adopting Internet enabled technologies to deliver services to consumers.

RETAIL SERVICES INDUSTRY PERSPECTIVE

With deregulation and increased competition for utility services, many utilities across North America are bundling a variety of energy-related products and services to consumers, often with the goal of establishing long-term relationships. These bundled offerings fulfill customers' needs for security, home comfort and better use of energy.

BC Gas Position

The Company is strengthening ties to its existing customers and broadening the range of products and services it offers to residential customers. Homeworks® *provides a variety of home comfort packages and services delivered to customers to enhance their home experience through a dedicated dealer network. Retail offerings currently include packages for heating, renovation and financing.*

BC GAS INTERNATIONAL

In April 2000, BC Gas International will begin the second phase of a natural gas distribution system in the United Arab Emirates. The $40 million project will provide natural gas service to an additional 34,000 customers in the City of Sharjah, following the first phase scheduled for completion in March 2000. BC Gas International is working in conjunction with its local partner, the S.S. Lootah Group, providing engineering, procurement and construction for the first natural gas distribution system in the United Arab Emirates. The two phases are part of a multi-phase project with the second phase scheduled for completion in March 2002.

As an entree to new business, the Company continues to provide consulting and training services for municipalities and utilities in regions including Central and Eastern Europe where there is strong demand for redevelopment and expansion of natural gas distribution infrastructure. The Company is currently involved in five international consulting projects, including a regulatory and industry infrastructure study in eastern Russia in conjunction with a major engineering company. This project is funded by the World Bank.

In addition to pursuing other projects in the engineering, procurement and construction sector, BC Gas International is well positioned to expand its business in the future to include multi-utility services and other related businesses.

Corridor Pipeline builds on Trans Mountain's expertise in pipeline construction and terminalling.

Petroleum Transportation

TRANS MOUNTAIN PIPELINE
CORRIDOR PIPELINE
OTHER OIL PIPELINES

Corridor Pipeline enables the Company to participate in the development of the Athabasca oil sands, the world's largest deposit of heavy oil and bitumen. Scheduled for start-up in late 2002, the pipeline will be owned by BC Gas Inc. and designed, constructed and operated by Trans Mountain Pipe Line Company Ltd.

This summer, Trans Mountain will begin construction of the Corridor Pipeline system, a $688 million project that is part of the Athabasca Oil Sands Project, under development by Shell Canada Limited along with Western Oil Sands Inc. and Chevron Canada Resources Limited. This Alberta based project takes advantage of Trans Mountain's expertise in crude oil transportation and terminalling and enables the Company to participate in the world's largest deposits of heavy oil and bitumen.

Corridor Pipeline, scheduled for start-up in late 2002, will be owned by BC Gas Inc. and designed, constructed and operated by Trans Mountain. The 493-km pipeline system will connect the Muskeg River Mine, north of Fort McMurray, and an upgrader to be constructed adjacent to Shell's Scotford refinery at Fort Saskatchewan, just north of Edmonton. The project consists of parallel diluent and diluent/bitumen pipelines as well as a section connecting the upgrader to existing pipeline and marketing terminals in the Edmonton area. The diluent/bitumen pipeline will have an initial capacity of 150,000 barrels a day of dry bitumen, with deliveries of dilbit, diluent, synthetic crude and supplementary feedstocks totalling 385,000 barrels per day. The Company is negotiating with other potential producers in the Fort McMurray area for additional shipments of diluted bitumen on the Corridor system.

OPPOSITE PAGE: Corridor's project management team: (left to right) Greg Hill, manager, facilities, Reynold Hinger, manager, pipelines, and Mike Horner, vice president, Corridor Pipeline Project.

Petroleum Transportation

CORRIDOR PIPELINE – A STRATEGIC INITIATIVE

With Corridor Pipeline, the Company is building on Trans Mountain's expertise in pipeline operations and terminalling to participate in the development of the Athabasca oil sands, a deposit with an estimated 1.7 to 2.5 trillion barrels of oil in place. With current technology, an estimated 300 billion barrels are recoverable, exceeding Saudi Arabia's proven reserves and making the Athabasca oil sands the world's largest oil deposit. As conventional oil reserves in Canada decline and the cost of producing heavy oil continues to drop, heavy oil will account for an increased proportion of crude oil production. The Canadian Association of Petroleum Producers estimates that by 2003 oil sands mining and in-situ bitumen production will account for more than 40 per cent of Western Canadian oil production.

The Athabasca Oil Sands Project

The project is a multi-billion dollar joint venture to design, construct, and operate the principal facilities necessary to mine, extract, transport and process bitumen from the west half of lease 13 in the Athabasca oil sands deposit.

On December 6, 1999, the project owners committed to spend $3.6 billion to construct and implement the current project.

Bitumen production is expected to reach 150,000 barrels per day by 2003, making it the fourth largest oil production facility in Canada.

DELIVERY VOLUMES

In 1999 deliveries of crude oil and refined products on Trans Mountain's mainline system from Edmonton, Alberta to British Columbia and Washington State were 32,988 cubic metres per day, down 18 per cent from the strong levels experienced in 1998. Deliveries in 1998 benefited from capacity constraints on alternative pipelines from Alberta, which were removed by 1999. In addition, 1999 volumes reflect lower demand by Washington State refineries for several reasons: reduced refinery runs resulting from major outages at several large refineries in California and Washington during the first half of 1999, and increased compression on refining margins due to higher world oil prices.

INCENTIVE AGREEMENT

The Company and its shippers are negotiating a second five-year incentive toll agreement for implementation January 1, 2001. Under the current agreement, which applies to the NEB regulated mainline system, shippers and Trans Mountain share in net earnings above a specified threshold level. The total share of pre-tax revenues from all 1999 incentives that will be credited in 2000 to mainline shippers is $2.5 million, compared with $4.0 million for 1999. The lower amount reflects decreased delivery volumes in 1999.

Through a subsidiary, the Company also operates a jet fuel pipeline system which delivers more than 90 per cent of jet turbine fuel at Vancouver International Airport.

During the year, Trans Mountain completed the installation of a vapour unit to control emissions of volatile organic compounds and reduce odour at its Westridge Marine Terminal when tankers are loaded with crude oil for offshore markets.

ENVIRONMENTAL PROTECTION

Trans Mountain has a number of programs in place to support its commitment to environmental protection, strong safety performance, and pipeline integrity. The Company experienced one reportable oil spill during the year resulting from a corrosion pinhole leak from a tank line at the Edmonton Terminal. The 20 cubic metre gasoline spill was fully contained and was immediately cleaned up with negligible environmental impact. Trans Mountain had no lost time injuries during 1999.

To ensure the soundness and safety of the pipeline system, the Company has a comprehensive program of electronic internal pipe inspection, excavations to investigate anomalies and repairs or replacements as required plus an ongoing program of hydrostatically retesting sections of the pipeline system. In 1999 the Company successfully retested two sections of the mainline, one east of Edson, Alberta (51 km) and the other in the Valemont-Albreda section of British Columbia (40 km). Since 1994 380 km of the 1,130-km mainline system have been retested. The Company is continuing to assess new inline inspection tool technology to improve its performance and as a possible future alternative to hydrostatic testing.

BC Gas employees are involved in a wide variety of community endeavours.

Corporate Responsibility

In 1999, BC Gas maintained its commitment to corporate citizenship in several key areas.

COMMUNITY INVOLVEMENT

Establishing and maintaining strong links with our communities have always been important to BC Gas and will become even more so as we move toward a deregulated market environment. We continue to support the well-being of communities where we have operations through a wide variety of initiatives. To achieve the greatest benefit, we work with local organizations on programs focused on helping people help themselves or that recognize groups or individuals who make a difference. An example is our association with Community Kitchens, a program where BC Gas, together with three other partners, helps groups of people learn how to cook healthy, nutritious and economical meals.

Participating in partnership projects has long been a hallmark of Trans Mountain, particularly in communities through which its pipeline system crosses. The Trans Canada Trail is a national millennium project that the Company is supporting in a number of ways. In 1999, Trans Mountain transported a Trail bridge to a new location in Abbotsford, B.C., provided its helicopter to Trail representatives for an aerial survey of potential routes through the Coquihalla area in southern B.C., and permitted the Nicola Valley Explorers Society to clear some Company land for potential use as part of the Trans Canada Trail. Trans Mountain has also pledged funds towards the construction of a Trans Canada Trail Pavilion on Burnaby Mountain, B.C.

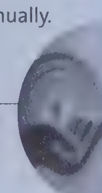
In addition to Company-sponsored initiatives, we strongly support our employees' efforts to ensure sound, vital communities. Through the initiative of our employees, BC Gas supports numerous worthwhile efforts, the largest one being the United Way.

The United Way Employee Giving campaign is part of our culture at BC Gas. In 1999 employees raised a record $285,856 for United Way agencies across British Columbia. BC Gas employees are among the highest per capita contributors to United Way agencies in British Columbia. In 2000 Company president John Reid will chair the United Way Campaign for the Lower Mainland.

ENVIRONMENT

BC Gas Utility is updating its environmental policy to better represent the efficient and effective way we manage our business in respect to the environment and to enable us to clearly set environmental operating targets and objectives. The new policy will represent our core values of environment, health and safety, allow for continuous improvement and better reflect our corporate direction. These steps will ensure that the Company will be compliant with the international ISO 14001 environmental standard.

During the year, BC Gas Utility implemented a multi-year management plan to reduce our system's greenhouse gas emissions. The Company is reviewing its operations for ways to reduce emissions through activities such as system maintenance, replacement and operating efficiencies. The Company continues to measure emission reductions and will further examine emission reduction measures annually.



***OPPOSITE PAGE:** BC Gas 1999 loaned representatives to the United Way: Denise Praill (left, standing) and Kim Griffiths (seated) with Heather Harps, chair of the employee community giving campaign at BC Gas.*

Corporate Responsibility

For 1999, BC Gas Utility received gold level reporting status from Canada's Climate Change Voluntary Challenge and Registry, a program designed to encourage and track voluntary reductions of greenhouse gas emissions.

The Company is also launching a public awareness program aimed at helping customers reduce their energy costs through increased conservation and efficiency. By promoting the effective use of energy, the program will also help reduce greenhouse gas emissions.

Trans Mountain's commitment to reducing greenhouse gas emissions is demonstrated through a number of initiatives, including the Company's support of the Tree Canada Foundation. This non-profit organization is enhancing the livability of communities across the country and helping companies offset carbon dioxide emissions by developing locally based tree-planting programs. In the second year of Trans Mountain's contribution to Tree Canada, planting activities were carried out in Burnaby, Chilliwack and Langley, B.C., and in Sherwood Park, Alberta.

NATURAL GAS VEHICLE (NGV) PROGRAM

Over the past year, BC Gas strengthened its role as the largest provider of NGV services in British Columbia by acquiring 20 additional refueling sites, bringing the total to 37 sites. BC Gas is working with auto manufacturers to bring factory-built natural gas vehicles into the Vancouver market for use by commercial fleets such as courier and delivery trucks, taxis, buses and police cars. In the marketing process, the Company continues to build stronger relationships with the Ford Motor Company and with other automobile manufacturers. During the year the Company participated in marketing events sponsored by major manufacturers to encourage commercial fleet owners and operators to test-drive natural gas vehicles.

The NGV program helps to improve air quality throughout the Company's service area. Recent studies by Transport Canada show that natural gas vehicles can reduce greenhouse gas emissions and other pollutants. The Company is working in close cooperation with the governments of British Columbia and Canada to be leaders in the introduction of cleaner technology vehicles into the market.

Financial Review

Management Discussion and Analysis

This discussion and analysis is a review of the operating results, business risks, financial condition and outlook for BC Gas Inc. ("BC Gas" or "the Company"). This discussion should be read in conjunction with the consolidated financial statements of the Company and related notes.

OVERVIEW

Financially and operationally, 1999 was another successful year for BC Gas. The Company was able to overcome challenges such as a lower allowed return on equity in natural gas distribution and reduced throughput in petroleum transportation to deliver improved earnings and dividends for shareholders. Earnings per share before non-recurring items were up 5%, dividends paid per share were up 7%, and the Company exceeded its target return on equity of 12% again in 1999 with an achieved return on equity of 12.2%.

In terms of liquidity and capital resources, BC Gas' continued access to capital markets was demonstrated by the issuance of $225 million of medium term note debentures in 1999 by BC Gas Utility Ltd. ("BC Gas Utility" or "the Utility"), and the upgrade of BC Gas Utility's ratings by both Canadian credit rating agencies. This access to capital markets will play a key role in the development of the Company's two major capital projects, the Southern Crossing Pipeline and the Corridor Pipeline.

BUSINESS SEGMENTS OF BC GAS

Natural Gas Distribution

The Company's natural gas distribution operations consist primarily of BC Gas Utility and several small related utility operations. BC Gas Utility is the largest gas distribution utility serving British Columbia with approximately 90% of the province's natural gas users in approximately 100 communities. BC Gas Utility provides transmission and distribution services to its customers, and obtains gas supplies primarily on behalf of residential and commercial customers, making the Utility the largest single buyer of natural gas in B.C. Major areas served are Greater Vancouver, the Fraser Valley and the Thompson, Okanagan, Kootenay and North Central Interior regions of the province.

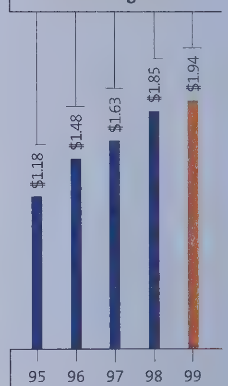
Petroleum Transportation

BC Gas' petroleum transportation operations are carried out by Trans Mountain Pipe Line Company Ltd. ("Trans Mountain"), which owns and operates a pipeline system transporting crude oil and refined products from Edmonton, Alberta to Burnaby, British Columbia. The pipeline of a U.S. subsidiary delivers Canadian crude oil to several refineries in Washington State. In addition, Trans Mountain owns and operates a marine terminal in the Port of Vancouver and a jet fuel pipeline to a storage system at Vancouver International Airport. Through Corridor Pipeline Limited, the Company is constructing a dual pipeline system with an estimated cost of $688 million which will transport diluted bitumen and diluent between Fort McMurray and Edmonton, Alberta.

Other Activities

BC Gas has other activities, which include non-regulated energy and utility businesses as well as corporate interest and administration charges. The non-regulated businesses include multi-utility supply and services, international consulting and retail energy services. Until October 19, 1999, these businesses also included independent power production. The majority of these businesses are direct subsidiaries of BC Gas.

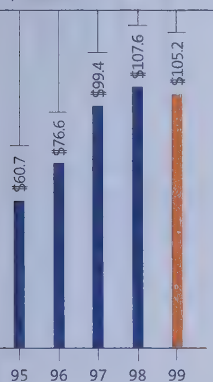
BC GAS INC.
Earnings Per Share Before Non-Recurring Items



On a per share basis, 1999 earnings before non-recurring items were $1.94, up from $1.85 in 1998.

Management Discussion and Analysis

NATURAL GAS DISTRIBUTION
Earnings Before Restructuring Costs, Income Taxes and Non-Controlling Interest
$ millions



1999 earnings from natural gas distribution were slightly below 1998, reflecting a lower allowed return on equity, partially offset by productivity improvements and higher transportation revenue.

The contribution to earnings per share of each segment is as follows:

Years ended December 31	**1999**	1998
Natural gas distribution	**$ 1.35**	$ 1.35
Petroleum transportation	**0.51**	0.59
Other activities	**0.08**	(0.09)
	1.94	1.85
Income tax benefits from NW Energy	**0.18**	—
Earnings per common share	**$ 2.12**	$ 1.85

Income tax benefits recognized in 1999 of $7.0 million or $0.18 per share were associated with the monetization of the Company's interest in NW Energy (Williams Lake) Limited Partnership ("NW Energy") in 1999. A further $29.0 million of earnings are expected to be recognized in the year 2000 in respect of additional income tax benefits associated with NW Energy.

EARNINGS PERFORMANCE

Earnings before income tax benefits from NW Energy were $74.2 million in 1999 compared to $71.2 million in 1998. An analysis of the increase in earnings is as follows:

In millions of dollars	
Net earnings for 1998	$ 71.2
Natural Gas Distribution	
Lower allowed return on common equity in 1999	(4.1)
Productivity improvements, higher revenues and other items	4.0
Petroleum Transportation	
Lower throughput and other items	(3.4)
Other Activities	
Higher revenues, offset in part by higher corporate interest expense	1.6
Utilization of tax losses carried forward	4.9
Earnings before income tax benefits from NW Energy 1999	74.2
Income tax benefits from NW Energy	7.0
Net earnings for 1999	**$ 81.2**

NATURAL GAS DISTRIBUTION

Contribution to Earnings

In millions of dollars	**1999**	1998
Gross revenues	**$844.7**	$742.4
Operating expenses		
Cost of natural gas	**442.2**	338.2
Operation and maintenance	**115.4**	116.9
Depreciation and amortization	**62.5**	61.4
Property and other taxes	**31.9**	31.5
	652.0	548.0
Operating income	**192.7**	194.4
Financing costs	**87.5**	86.8
Earnings before income taxes and non-controlling interest	**$105.2**	$107.6

Management Discussion and Analysis

Revenues

Revenues from natural gas distribution increased to $844.7 million during 1999 from $742.4 million in 1998. Revenues are set to recover the Utility's cost of service, the largest component of which is the cost of natural gas. In 1999, revenues were higher primarily as a result of increases in the cost of natural gas, which is flowed through into customer rates.

During 1999, 13,785 new customers were added, bringing the total number of gas utility customers to 756,090 at year end. The rate of customer additions increased from 1998, when 9,989 new customers were added. This growth in customers was mainly in the heating market for new single-family houses where natural gas continues to achieve a very high market share.

Industrial sales service decreased by 2,187 terajoules while transportation volumes increased by 6,823 terajoules from the previous year. The Utility earns approximately the same margin regardless of whether a customer contracts for sales or transportation service. The net improvement in industrial volumes reflected a modest recovery in the B.C. economy in 1999.

Expenses

Expenses for natural gas distribution include the cost of natural gas, operation and maintenance expenses, depreciation and amortization, and property and other taxes. Total operating expenses were $652.0 million in 1999 compared with $548.0 million in 1998.

Cost of natural gas amounted to $442.2 million in 1999 compared with $338.2 million in 1998. The increase in cost of gas reflects an increase in the price of natural gas purchased by the Utility on behalf of its customers, which is flowed through into customer rates.

Operations and maintenance expenses decreased to $115.4 million in 1999 from $116.9 million in 1998. This decrease was due largely to productivity improvements flowing from a significant restructuring program at BC Gas Utility which was implemented in early 1998, offset by increases in other operating costs.

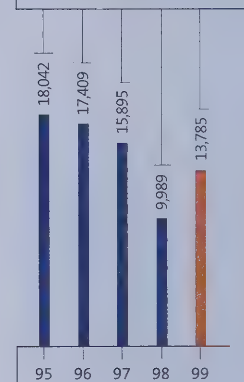
Increased investment in gas plant in service resulted in depreciation and amortization expense rising to $62.5 million in 1999 from $61.4 million in 1998. Growth in the asset base of the Company resulted in property and other taxes increasing by $0.4 million to $31.9 million in 1999.

Financing costs increased to $87.5 million in 1999 from $86.8 million in the previous year largely as a result of higher debt balances and higher short-term interest rates during 1999.

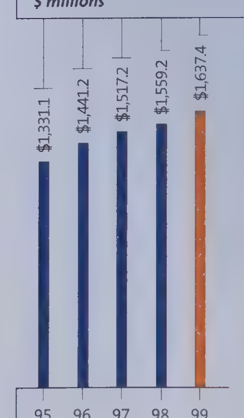
Regulation and Rates – BC Gas Utility

BC Gas Utility is regulated by the British Columbia Utilities Commission ("the BCUC"), which approves rates and tolls for services and the construction of facilities. Traditionally, rates have been set using the historical cost rate base and a rate of return. Since 1996, incentive-based regulation has been incorporated into the rate setting process in order to enhance both value to customers and returns to shareholders.

The Utility's rates are based on estimates of a number of items, such as natural gas sales, cost of natural gas and interest rates. In order to manage the risks associated with some of these estimates, a number of regulatory deferral accounts are in place. The three most significant deferral accounts relate to the risks of weather, cost of natural gas, and interest rates.



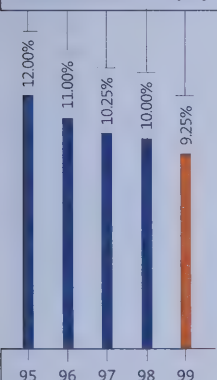
Customer additions are benefiting from a recovery in the British Columbia economy.



The Company's rate base will increase substantially once the Southern Crossing Project is completed.

Management Discussion and Analysis

NATURAL GAS DISTRIBUTION
Allowed Return on Equity



Recent declines in the allowed ROE reflect declines in Canadian interest rates.

The deferral accounts for weather and cost of natural gas reduce the Utility's earnings exposure to these risks by deferring any variances between projected and actual gas consumption and gas costs, and refunding or recovering those variances in future customer rates. Transportation and sales services to industrial customers are not covered by these deferral accounts. As a result of these deferral accounts, changes in reported revenues from year to year are caused mainly by changes in gas costs and other components of the Utility's cost of service which are recovered in customer rates. Changes in volumes of gas sold to residential and commercial customers due to weather or other factors have a less significant impact on reported revenues.

BC Gas Utility also has in place short-term and long-term interest deferral accounts to absorb interest rate fluctuations. The Utility's interest deferral accounts effectively locked in the cost of short-term funds attributable to regulated assets at 5% during 1999 and 1998.

Allowed Return on Equity ("ROE")

The Utility's 1999 allowed ROE of 9.25% was determined based on a formula that applied a risk premium to a forecast of long-term Government of Canada bond yields. The decline from 10.0% in 1998 was a result of a decline in forecast long-term bond yields.

In June 1999, the BCUC held a public hearing to review the ROE formula, which had been in effect since 1995. In its decision dated August 26, 1999, the BCUC amended the formula for the years beginning in 2000. The effect of these revisions is a lower allowed ROE for the Utility with the new formula than with the old formula, under most potential long-term bond yields. For 2000, the Utility's allowed ROE has been set at 9.50% using the revised formula, reflecting higher forecasted long-term bond yields compared to the 1999 ROE calculation. Had the original formula remained in place, the Utility's 2000 allowed ROE would have been 9.75%.

1998–2000 Revenue Requirement Decision

In June 1997, the Utility and other interested parties reached a negotiated settlement to set the revenue requirements for the Utility for the years 1998–2000, which was approved by the BCUC on July 23, 1997.

The key points of the settlement are as follows:

- Targets were set for productivity gains in operation and maintenance costs of 2% in each of 1998 and 1999 and 3% in 2000. To the extent that these productivity targets are exceeded, the Utility has the opportunity to earn higher returns on equity. Restructuring costs of up to $3 million associated with achieving these productivity targets were deferred and recovered in customer rates. By implementing the restructuring program and other initiatives, the Utility has taken steps to reach and exceed these productivity targets in each year of the settlement.
- New incentives for demand side management activities and capital expenditure efficiency were made available. To the extent that demand side management programs exceed targets, and to the extent that unit costs of certain classes of capital expenditures are lower than the allowed level, the Utility has opportunities to earn higher returns.
- An earnings sharing mechanism is incorporated whereby variances in achieved return on equity from that allowed by the BCUC in a given year are to be shared equally with customers. Earnings from the established incentive programs are not included in this earnings sharing mechanism.
- The ratio of overheads capitalized has been, and will be reduced from 22.5% of gross operation and maintenance costs in 1997 to 20% in 1998 and 1999, and to 16% in 2000.

Management Discussion and Analysis

- The allowed common equity component is to remain at 33% of capitalization, and $150 million of outstanding first preference shares are to be refinanced with long-term debt as they become redeemable in 1999 and 2000.
- Through an annual review process, rates for the upcoming year are adjusted to reflect projected changes in factors such as customer growth, industrial revenues, cost of natural gas, interest rates, and taxes.

In addition to the incentives noted above, the Gas Supply Mitigation Incentive Plan provides an incentive for the Utility to reduce gas supply costs to customers.

BC Gas has recently entered into discussions with stakeholders to extend the 1998–2000 settlement for an additional year. The Company intends to work with stakeholders to develop an improved incentive regulatory arrangement, which can more closely align the interests of customers with shareholders and provide the Company with additional incentives to create value.

Southern Crossing Pipeline Project

In 1999, the BCUC granted a $376 million Certificate of Public Convenience and Necessity ("CPCN") to BC Gas Utility for the proposed Southern Crossing Pipeline ("SCP") project. The SCP includes 316 kilometres of 24 inch (610 mm) pipeline to be constructed from Yahk, B.C. in the south-eastern corner of the province to Oliver, B.C. at the south end of the Okanagan valley, as well as related compression facilities. The routing will primarily follow existing pipeline rights-of-way.

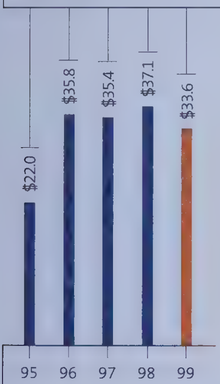
Land acquisition and clearing activities on the SCP have commenced and orders for major materials have been placed. BC Gas Utility intends to complete the project for an in-service date of November 1, 2000. However, it may revise the expected date of completion to November 1, 2001 depending on the results of bids that the Utility will be seeking for construction and installation of the pipeline. As part of the approval from the BCUC, project costs which exceed $376 million plus 10% (or $414 million) will not be included in rate base; correspondingly, any savings from project costs below $376 million less 10% (or $338 million) will be included in rate base.

Unbundling

Over the past year, the Company and a number of interested parties actively explored an arrangement that would allow residential and smaller commercial users to purchase natural gas directly from suppliers other than the Utility and use the Utility's system to transport the commodity. The Company does not anticipate that the introduction of these arrangements will have a material impact on the Company's financial results. Direction from the BCUC on this matter is anticipated in the spring of 2000.

Management Discussion and Analysis

PETROLEUM TRANSPORTATION
Earnings Before Income Taxes and Non-Controlling Interest
$ millions



1999 earnings were affected by lower throughput on the U.S. mainline compared to 1998.

Business Risks

Regulatory Treatment

Through the regulatory process, the BCUC approves the return on equity which the Utility is allowed to earn, in addition to various other aspects of the Utility's operation. Fair regulatory treatment that allows the Utility to earn a risk adjusted rate of return comparable to that available on alternative investments is essential for ongoing success.

Long-Term Competitiveness

Natural gas continues to enjoy a strong competitive position relative to alternative sources of energy in British Columbia. The increasing use of natural gas-fired electricity generating plants should help to preserve this advantage relative to electricity. However, it is essential that the Company continue to focus on improving productivity and minimizing the cost of natural gas for its customers in order to sustain its competitive advantage. Incentive regulatory arrangements are an important part of ensuring that the Company will be able to deliver customer value in an increasingly competitive environment.

Customer Additions

New customer additions at BC Gas Utility are typically a result of population growth and new housing starts. The state of the provincial economy has a significant impact on these factors. The Utility is working to expand its market for natural gas service by increasing its penetration of the multiple family development market.

Gas Supply

BC Gas continues to face significant physical risk related to gas supply disruption as it is dependent on a limited selection of pipeline and storage providers. This risk is particularly acute in the Vancouver-Lower Mainland service area where the majority of BC Gas Utility's core market customers are located. Currently, these customers rely primarily on the transportation services of one pipeline company. In addition, the limited transportation and storage alternatives present risks of both supply disruption and lack of access to competitive sources of natural gas.

To the extent possible, BC Gas Utility has attempted to minimize gas supply and price risk through the use of long-term transportation, storage and supply contracts, hedging instruments and a diverse supply portfolio. The construction of the Southern Crossing Pipeline adds to BC Gas Utility's choice of resources and is intended to mitigate this risk in addition to minimizing the delivered cost of gas to the Utility's core customers over the long term.

PETROLEUM TRANSPORTATION

Contribution to Earnings

In millions of dollars	**1999**	1998
Gross revenues	**$129.4**	$135.4
Operating expenses		
Operation and maintenance	**46.8**	47.6
Depreciation and amortization	**14.9**	16.1
Property and other taxes	**19.3**	19.6
	81.0	83.3
Operating income	**48.4**	52.1
Financing costs	**14.8**	15.0
Earnings before income taxes and non-controlling interest	**$ 33.6**	$ 37.1

Management Discussion and Analysis

Revenues

Revenues from petroleum transportation operations decreased to $129.4 million in 1999 from $135.4 million in 1998 as a result of lower delivery volumes in 1999. Pipeline deliveries averaged 36,184 cubic metres per day (m^3/d) in 1999 compared to 43,420 m^3/d in 1998.

As discussed below under "Regulation", Trans Mountain's Canadian mainline is subject to a regulatory settlement that mitigates the impact of variations in throughput volumes on revenues and earnings. However, the U.S. pipeline in Washington State is not subject to the same regulatory arrangements, and fluctuations in U.S. mainline throughput have a direct impact on petroleum transportation revenues and earnings.

Throughput levels in 1998 were unusually high as a result of capacity restrictions on alternative pipelines, notably Enbridge Pipelines, which transports petroleum to the U.S. Midwest. These restrictions were one of the factors that resulted in the diversion of significant volumes to U.S. markets served by Trans Mountain's system. When the restrictions were alleviated in mid-1998, volumes on Trans Mountain's system declined.

In addition, prices for crude oil on the West Coast of North America were relatively unattractive in 1999 for producers in Alberta. In the absence of pipeline capacity constraints, marginal Alberta crude oil production can be shipped to the U.S. Midwest and eastern Canada on pipelines such as Enbridge Pipelines, or to Washington State on Trans Mountain. The relatively low prices on the West Coast compared to the U.S. Midwest, particularly during the first half of 1999, reduced throughput on the U.S. mainline accordingly.

Expenses

Operating expenses from petroleum transportation operations decreased by $2.3 million from $83.3 million in 1998 to $81.0 million in 1999 mainly as a result of a decrease in transportation expenses associated with lower delivery volumes. Financing costs in 1999 were essentially unchanged from 1998.

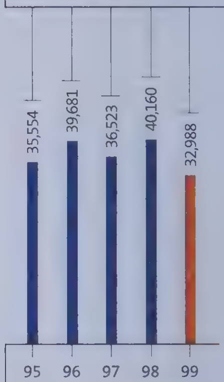
Regulation

The National Energy Board ("the NEB") regulates the Canadian portion of Trans Mountain's crude oil and refined products pipeline system. The NEB authorizes pipeline construction and establishes tolls and conditions of service. Traditionally, rates have been set using the historical cost rate base and a rate of return.

In 1995, Trans Mountain and shipper representatives reached a negotiated agreement that was approved by the NEB. The agreement determines Trans Mountain's revenue requirement, and resulting tolls, over a five year period which started on January 1, 1996. Trans Mountain's revenue requirement is determined with reference to a negotiated 1996 starting point of $106.0 million, which includes a 1996 provision for income taxes of $7.5 million. Each successive year's starting point, net of income taxes, is adjusted to reflect the yearly rate of change of the Consumer Price Index of Canada.

The negotiated settlement contains an efficiency incentive. This incentive allowed Trans Mountain to retain 100% of earnings up to $13.4 million in 1999, after which earnings were shared 50/50 with the shippers. In 1999 the total pre-tax revenues to be returned to the shippers under this sharing arrangement was $3.9 million. In addition, under the incentive toll settlement, throughput volume risk is assumed by the shippers. Due to lower than forecast volumes shipped in 1999, Trans Mountain will recover $1.4 million in 2000.

PETROLEUM TRANSPORTATION
Canadian mainline volumes (including U.S. mainline)
cubic metres per day



Throughput declined in 1999 due to increased capacity on alternative pipelines and relatively low crude oil prices on the West Coast.

Management Discussion and Analysis

The toll charged for the U.S. pipeline in Washington State falls under the jurisdiction of the Federal Energy Regulatory Commission ("FERC"). Regulation by FERC is on a complaint basis. There were no complaints in 1999.

Tolls for the jet fuel pipeline system are regulated by the BCUC on a complaint basis. In 1997 Trans Mountain conducted negotiations with the principal shippers on the jet fuel pipeline system. Those negotiations resulted in an agreement to determine the jet fuel pipeline revenue requirement in a manner substantially similar to the agreement currently in place for the crude oil and refined products pipeline. The agreement began to operate for a five year period on January 1, 1998.

Corridor Pipeline Limited

Trans Mountain and the Company have entered into an agreement with Shell Canada Limited ("Shell"), Chevron Canada Resources Limited and Western Oil Sands Inc. for the construction and operation of the Corridor pipeline system. Corridor Pipeline Limited ("CPL") has been established as a direct subsidiary of the Company to own and operate this system.

The Corridor pipeline system will provide for the pipeline transportation of diluted bitumen produced at the Muskeg River Mine located approximately 70 km north of Fort McMurray, Alberta to a heavy oil upgrader that Shell and its partners plan to construct adjacent to Shell's existing Scotford Refinery near Edmonton, Alberta, a distance of approximately 453 km. A smaller diameter parallel pipeline will transport recovered diluent from the upgrader back to the mine. CPL will also construct two additional pipelines, each 43 km in length, to provide pipeline transportation between the proposed Scotford Upgrader and the existing trunk pipeline facilities of Trans Mountain and Enbridge in the Edmonton area. The completed pipeline system is estimated to cost $688 million.

The estimated cost, $688 million, is divided into two parts. $468 million is a fixed price, quoted to Shell and its partners by the Company. It contains fixed price bid amounts from third party contractors, a contingency amount and amounts estimated by CPL, and is subject to certain agreed escalators. The balance of the cost, which includes line fill and interest costs, is comprised of amounts over which CPL has no control or risk exposure, and which will be included in the rate base at cost.

The Corridor Pipeline project has received all required regulatory approvals in addition to approvals from Shell and its partners. Shell and its partners have made a long term ship or pay commitment to transport a total of 150,000 barrels per day of bitumen and 65,000 barrels per day of diluent in the Corridor pipeline system.

Business Risks

Competitiveness

Revenues are affected by changes in throughput volumes. Under the incentive toll settlement for the Canadian mainline, this risk is mitigated by a mechanism that permits Trans Mountain to recover throughput related revenue shortfalls in subsequent years. However, recovery of any accumulated shortfall depends on sufficient throughput in subsequent years. Revenues associated with throughput on the U.S. pipeline are not covered by the incentive toll settlement, and are therefore directly affected by changes in U.S. throughput.

Trans Mountain's pipeline to the West Coast of North America is one of several alternatives for Western Canadian petroleum production. Throughput on the U.S. pipeline may decline in situations where West Coast prices are relatively lower than alternative prices in the U.S. Midwest.

Management Discussion and Analysis

Refined products can be imported for the British Columbia market through marine offloading facilities in the Port of Vancouver or by truck transportation from refineries in Washington State. In 1999, refined products for the British Columbia market represented approximately 40% of Trans Mountain's deliveries. This risk may be mitigated by the adjustment mechanism for revenues in the incentive toll settlement.

Regulatory Treatment

The decision by the NEB requiring Trans Mountain to use the taxes payable method rather than the tax allocation method of accounting for income taxes, which will inevitably result in higher tolls as capital cost allowance benefits are expended, assumes that future shippers will still ship under such increased tolls.

The cost of abandonment of the pipeline system at the eventual end of its useful life may not be fully recovered in tolls. Until such time as the magnitude of and the funding mechanism for the eventual recovery of negative salvage is determined, Trans Mountain, like other Canadian trunk pipeline systems, makes no provision for these amounts.

Operations

Trans Mountain has taken all reasonable and prudent steps to minimize its exposure in the case of a catastrophic event or environmental upset. Trans Mountain maintains a comprehensive Line Integrity Program as a preventive measure to mitigate the risk of a pipeline failure or other loss of system integrity. The Program is intended to reduce both the likelihood and severity of the business interruption and/or environmental liability that could result from a loss of line integrity.

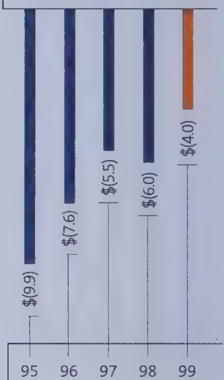
OTHER ACTIVITIES

Contribution to Earnings

In millions of dollars	**1999**	1998
Gross revenues	**$ 66.5**	$ 47.2
Operating expenses		
Operation and maintenance	**20.7**	24.4
Depreciation and amortization	**5.2**	7.1
Property and other taxes	**1.3**	1.7
Cost of revenues	**24.0**	—
	51.2	33.2
Operating income	**15.3**	14.0
Financing costs	**19.3**	20.0
Loss before income taxes and non-controlling interest	**$ (4.0)**	$ (6.0)

Losses from other activities in 1999 were $4.0 million before income taxes and non-controlling interest compared with $6.0 million in 1998. This improvement was mainly due to revenues from the construction of a natural gas distribution system in the United Arab Emirates city of Sharjah, and contributions from two water supply and services business which were acquired in 1999.

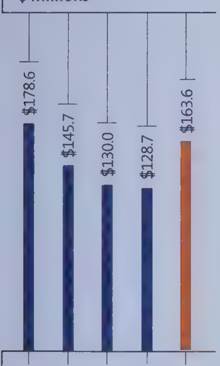
OTHER ACTIVITIES
Earnings Before Other Gains & Losses, Income Taxes and Non-Controlling Interest
$ millions



The improvement in 1999 results from other activities reflects contributions from water supplies and services and from international consulting.

Management Discussion and Analysis

BC GAS INC.
Consolidated Capital Expenditures
$ millions



1999 capital expenditures include preliminary work on the Southern Crossing Project.

Revenues increased from $47.2 million in 1998 to $66.5 million in 1999 primarily as a result of the acquisition of Western Water & Sewer Supplies Ltd., offset by the monetization of the Company's interest in NW Energy in October 1999. Operations and maintenance expenses, depreciation and amortization, property and other taxes and financing costs all declined in 1999 compared to 1998 as a result of the NW Energy monetization. Cost of revenues of $24.0 million in 1999 related mainly to costs of goods sold for the water supply businesses.

Business Risks

The other activities segment is relatively less significant than the Company's two other segments. Businesses in this segment primarily operate in unregulated industries which are, by their nature, more risky than BC Gas' regulated operations. Therefore, earnings contributions from these businesses are less predictable. Factors such as economic conditions, interest rates, foreign exchange rates and market pricing conditions may impact the results from these businesses.

LIQUIDITY AND CAPITAL RESOURCES

An increase in net earnings (after adjusting for items not involving cash) and changes in non-cash operating working capital resulted in an increase in cash flow from operating activities to $124.1 million in 1999 from $80.2 million in 1998.

Capital expenditures totaled $163.6 million in 1999 compared with $128.7 million in 1998. The $34.9 million increase in capital spending was due mainly to expenditures on the initial stages of the Southern Crossing Pipeline.

The capital spending in 1999 is summarized as follows:

In millions of dollars	
Natural gas distribution	
Mains, services and engineering projects	$ 66.4
Land and buildings	3.3
Systems and computer hardware	9.4
Southern Crossing Pipeline	20.9
Other	4.5
	104.5
Capitalized overhead	29.3
	133.8
Petroleum transportation	24.8
Other activities	5.0
	$163.6

Coverage Ratios

Due to the capital intensive nature of the Company's businesses and the need to raise debt frequently in the fixed income market, maintenance of its financial ratios is a priority for BC Gas. The most significant ratios are considered to be interest coverage and total debt to shareholders' equity. These are presented below on a consolidated basis for the three corporate entities actively issuing debt in the capital markets:

	1999	1998
Interest coverage		
BC Gas	**2.11**	2.14
BC Gas Utility	**2.19**	2.19
Trans Mountain	**3.58**	3.83
Debt to shareholders' equity		
BC Gas	**2.44:1**	2.67:1
BC Gas Utility	**1.72:1**	1.59:1
Trans Mountain	**1.35:1**	1.49:1

Management Discussion and Analysis

Debt Ratings

Securities issued by BC Gas, BC Gas Utility and Trans Mountain are rated by two Canadian bond rating companies, the Dominion Bond Rating Service ("DBRS") and the Canadian Bond Rating Service ("CBRS"). The ratings assigned to securities issued by the BC Gas group of companies are reviewed by DBRS and CBRS on an annual basis.

In 1999, CBRS raised its rating on the unsecured long-term debt and purchase money mortgages of BC Gas Utility from B++ (High) and A (Low) to A (Low) and A, respectively. In addition, DBRS raised its rating on the preference shares of BC Gas Utility from Pfd-3 (High) to Pfd-2 (Low). The table below summarizes the ratings assigned to the Company's various securities at December 31, 1999.

	DBRS	CBRS
BC Gas Inc.		
Commercial paper	R–1 (Low)	A-1 (Low)
BC Gas Utility		
Commercial paper	R-1 (Low)	A-1
Unsecured debentures	A	A (Low)
Medium term note debentures	A	A (Low)
Purchase money mortgages	A	A
6.32% Preference shares	Pfd-2 (Low)	P-3 (High)
Trans Mountain		
Commercial paper	R-1 (Low)	A-1 (Low)
Unsecured debentures	A (Low)	A (Low)

Projected Capital Expenditures

BC Gas has estimated total capital expenditures of $657.0 million in 2000 for all of its subsidiaries. Expenditures on the Corridor Pipeline will be financed by a project loan from a syndicate of banks which is currently being arranged. The Company expects to finance other capital expenditures with a combination of long-term debt issuance at BC Gas Utility, short-term borrowings, internally generated funds and preferred equity issuance at BC Gas Inc. The breakdown of projected capital expenditures for 2000 is as follows:

In millions of dollars	
Natural gas distribution	
Mains, services and engineering projects	$ 86.5
Land and buildings	3.0
Systems and computer hardware	40.1
Southern Crossing Pipeline	337.0
Other	13.3
Capitalized overhead	23.4
	503.3
Petroleum transportation	
Trans Mountain	17.9
Corridor Pipeline	128.8
	141.7
Other activities	7.0
Total	$ 657.0

Public Issues

During the year, BC Gas Utility issued $225 million of medium term note debentures at a weighted average interest rate of 6.70%. This compares with $108 million issued in 1998 at an interest rate of 5.69%.

Management Discussion and Analysis

BC GAS INC.
Dividends Paid Per Share

Since 1995, dividends per share have grown by 29%.

Lines of Credit

The Company has lines of credit in place totaling $675 million to finance cash requirements, comprising $200 million at BC Gas, $350 million at BC Gas Utility and $125 million at Trans Mountain. These lines enable the respective companies to borrow directly from their bankers, issue bankers' acceptances and support commercial paper issued by each company. Bank lines of $223 million were unutilized at the end of 1999. Virtually all short-term cash needs are funded through commercial paper and bankers' acceptances in the Canadian market at rates generally below bank prime.

Common Share Repurchase Program

The Company has had various share repurchase programs in place since August 1996. In July 1998, a share repurchase program was filed which allowed the Company to repurchase up to 2,100,000 common shares over the 12 month period ending August 16, 1999. Between August 1996 and August 1999, a total of 3,932,200 common shares were purchased in the open market at an average price of $23.96 per share.

In total, 857,300 common shares were purchased in the open market in 1998 at an average purchase price of $29.86 per share. There were no share repurchases in 1999, as the Company intends to use available equity over the next several years to finance its capital projects, including the Southern Crossing and Corridor Pipelines.

Dividends

The dividends paid on BC Gas' common shares in 1999 were $1.165 per share, up from $1.09 per share in 1998. In aggregate, BC Gas paid common shareholder dividends of $44.6 million in 1999 compared to $42.0 million in 1998. The increase in the total dollar amount of dividends paid reflects the increased dividend per share, offset in part by a decrease in the average number of common shares outstanding in 1999 due to share repurchases in 1998.

Financial Instruments and Risk Management

The Company uses financial instruments from time to time to manage its exposure to changes in interest rates where the interest rate risk is not managed through the use of interest rate deferral accounts. These financial instruments are used only for hedging purposes, and are employed only in connection with an underlying asset or liability through counterparties with acceptable credit status. There were no significant interest rate hedging instruments in place at December 31, 1999.

BC Gas, through its natural gas distribution operations, has undertaken a natural gas price risk management program on behalf of its customers to manage the price volatility of its forecast system gas supply. Part of this program involves the use of financial instruments to effectively fix the price of baseload gas supply.

Management Discussion and Analysis

OTHER MATTERS

NW Energy Monetization

On October 19, 1999, BC Gas sold its interest in the cash flow of NW Energy, which owns a wood waste-fired independent electricity generating plant, to TransCanada Power, L.P. BC Gas received net proceeds of $25.6 million which, along with tax benefits that were recognized in 1999, resulted in a total after-tax gain of $7.0 million. Additional income tax benefits of approximately $29.0 million relating to NW Energy are expected to be recognized during 2000. TransCanada Power will operate and manage the plant.

Union Settlements

In 1999, BC Gas Utility concluded negotiations with its two bargaining units, the Office and Professional Employees International Union (Local 378) and the International Brotherhood of Electrical Workers (Local 213). The contracts are in effect to March 31, 2000 and March 31, 2001, respectively.

OUTLOOK

With the monetization of NW Energy in 1999, BC Gas completed the program of non-core asset dispositions which began in 1995. The Company is now focused on executing the three components of its strategic plan: strengthen and expand the base business, grow the multi-utility business, and deliver new products and services to existing customers.

Although the economy in British Columbia has been experiencing slower growth than in previous years, BC Gas Utility's exposure to an economic slowdown is relatively limited, given its mature, diversified customer base and its ability to correct for unanticipated developments in the annual rate resetting process. The Company is optimistic that the provincial economy will recover, with a corresponding increase in customer growth rates.

To ensure BC Gas Utility's long term success in a changing market for utility services, the Company is working to enhance its incentive regulatory arrangements to ensure that long-term value for customers and shareholders is maximized. The Company is also taking steps to ensure that the necessary infrastructure and processes are in place to capitalize on incentive opportunities. These initiatives are a key part of strengthening our base businesses.

Trans Mountain's delivery volumes will continue to be affected by the relative price competitiveness of Alberta crude oil in the western North American market and by capacity additions on pipelines out of Edmonton. However, as the only petroleum pipeline connecting Alberta's significant conventional and synthetic petroleum reserves with the continent's West Coast, Trans Mountain is well positioned to capitalize over the long term on growing demand created by declining Alaska and California crude oil production.

In all aspects of the strategic plan, BC Gas is focused on activities that generate shareholder value by providing reasonable returns that are consistent with the existing risk profile of the Company. The Corridor and Southern Crossing pipelines are growth opportunities that are closely tied to BC Gas' core competencies in natural gas distribution and petroleum transportation. Activities in the water supplies and services business, retail energy services and international consulting contribute to financial results and strategic development while controlling the Company's risk exposure. The actions taken in 1999 and those planned for the future position BC Gas to deliver superior value to customers and shareholders in a competitive energy services market.

Management's Responsibility

The consolidated financial statements have been prepared by management, which is responsible for the integrity and objectivity of this information. These statements have been prepared in conformity with Canadian generally accepted accounting principles and, where appropriate, include some amounts that are based on management's best estimates and judgments. The financial information presented elsewhere in the annual report is consistent with that in the consolidated financial statements.

Management has established systems of internal control which are designed to provide reasonable assurance that assets are safeguarded from loss and that reliable financial records are maintained. These systems are monitored by internal auditors.

KPMG, the auditors appointed by the shareholders, have reviewed the systems of internal control and examined the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express an independent opinion on the consolidated financial statements. Their report is set out below.

The Board of Directors, through its Audit Committee, oversees management's responsibilities for financial reporting and internal control. The Audit Committee meets with the internal auditors, the independent auditors and management to discuss auditing and financial matters and to review the consolidated financial statements and the independent auditors' report. The Audit Committee reports its findings to the Board for consideration in approving the consolidated financial statements for issuance to the shareholders.

J.M. Reid

John M. Reid
President and Chief Executive Officer

Vancouver, Canada
February 3, 2000

M.C. Woensdregt

Milton C. Woensdregt
Senior Vice President, Finance,
Chief Financial Officer and Treasurer

Auditors' Report

We have audited the consolidated statements of financial position of BC Gas Inc. as at December 31, 1999 and 1998 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act (British Columbia), we report that, in our opinion, these principles have been applied on a consistent basis.

KPMG LLP

Chartered Accountants
Vancouver, Canada
February 3, 2000

Consolidated Statements of Earnings

(In millions of dollars, except per share amounts)

Years Ended December 31	**1999**	1998
REVENUES		
Natural gas distribution	**$ 844.7**	$ 742.4
Petroleum transportation	**129.4**	135.4
Electricity sales	**26.1**	32.6
Revenues from other activities	**40.4**	14.6
	1,040.6	925.0
EXPENSES		
Cost of natural gas	**442.2**	338.2
Operation and maintenance	**182.9**	188.9
Depreciation and amortization	**82.6**	84.6
Property and other taxes	**52.5**	52.8
Cost of revenues from other activities	**24.0**	—
	784.2	664.5
OPERATING INCOME	**256.4**	260.5
Financing costs (note 7)	**121.6**	121.8
Earnings before income taxes and non-controlling interest	**134.8**	138.7
Income taxes on earnings (note 8)	**55.9**	62.9
Income tax benefits from NW Energy (note 9)	**(7.0)**	—
	48.9	62.9
Earnings before non-controlling interest	**85.9**	75.8
Non-controlling interest (note 4)	**4.7**	4.6
NET EARNINGS	**$ 81.2**	$ 71.2
Common shares – weighted average (millions)	**38.3**	38.5
EARNINGS PER COMMON SHARE	**$ 2.12**	$ 1.85

Consolidated Statements of Retained Earnings

(In millions of dollars)

Years Ended December 31	**1999**	1998
Balance, beginning of year	**$ 147.2**	$ 136.1
Net earnings	**81.2**	71.2
	228.4	207.3
Dividends on common shares	**44.6**	42.0
Share options and common shares purchased (note 5)	**0.6**	18.7
Reduction of income taxes related to share issue costs	**—**	(0.6)
	45.2	60.1
Balance, end of year	**$ 183.2**	$ 147.2

Consolidated Statements of Financial Position

(In millions of dollars)

December 31	**1999**	1998
ASSETS		
Current assets		
Cash	**$ 5.6**	$ —
Accounts receivable	**178.5**	166.7
Inventories of gas in storage and supplies	**49.4**	33.7
Prepaid expenses	**4.4**	5.0
Rate stabilization accounts	**32.8**	14.6
Income and other taxes recoverable	**—**	4.9
	270.7	224.9
Property, plant and equipment (note 1)	**2,154.7**	2,168.6
Other assets (note 2)	**25.1**	72.6
	$ 2,450.5	$ 2,466.1
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	**$ —**	$ 5.8
Short-term notes	**452.0**	474.0
Accounts payable and accrued liabilities	**179.1**	183.5
Income and other taxes payable	**4.1**	—
Current portion of long-term debt (note 3)	**77.2**	194.8
	712.4	858.1
Long-term debt (note 3)	**1,001.8**	906.7
Deferred income taxes	**35.0**	36.3
Non-controlling interest (note 4)	**75.0**	75.0
	1,824.2	1,876.1
Shareholders' equity		
Capital stock (note 5)	**363.3**	363.0
Contributed surplus	**130.8**	130.8
Retained earnings	**183.2**	147.2
	677.3	641.0
Less cost of common shares held by Trans Mountain	**51.0**	51.0
	626.3	590.0
	$ 2,450.5	$ 2,466.1

Approved by the Board:

R. Lance Cliff

Ronald L. Cliff
Director

J. M. Reid

John M. Reid
Director

Consolidated Statements of Cash Flows

(In millions of dollars)

Years Ended December 31	**1999**	1998
Cash flows provided by (used for)		
Operating activities		
Net earnings	**$ 81.2**	$ 71.2
Adjustments for non-cash items		
Depreciation and amortization	**82.6**	84.6
Deferred income taxes	**10.4**	1.4
Other	**0.2**	(1.1)
	174.4	156.1
Changes in non-cash operating working capital	**(50.3)**	(75.9)
	124.1	80.2
Investing activities		
Property, plant and equipment	**(163.6)**	(128.7)
Other assets	**(4.3)**	3.2
Net proceeds from disposal of NW Energy (note 9)	**25.6**	—
	(142.3)	(125.5)
Financing activities		
Increase (decrease) in short-term notes	**(22.0)**	100.0
Increase in long-term debt	**231.7**	108.3
Reduction of long-term debt	**(135.2)**	(96.9)
Issue of common shares	**0.3**	0.5
Share options and common shares purchased	**(0.6)**	(28.5)
Dividends on common shares	**(44.6)**	(42.0)
Other	**—**	0.6
	29.6	42.0
Net increase (decrease) in cash	**11.4**	(3.3)
Bank indebtedness at beginning of year	**(5.8)**	(2.5)
Cash (bank indebtedness) at end of year	**$ 5.6**	$ (5.8)
Supplemental disclosure of cash flow information		
Amount of interest paid in the year	**$ 120.6**	$ 125.0
Amount of income taxes paid (recovered) in the year	**(2.6)**	52.2

Cash is defined as cash or bank indebtedness.

Significant Accounting Policies

Years Ended December 31, 1999 and 1998

The preparation of these consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and the disclosure of contingent assets and liabilities. A significant area requiring the use of management estimates relates to the determination of useful lives for depreciation and amortization. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries. The natural gas distribution operations are conducted through BC Gas Utility Ltd. ("the Utility"). The petroleum transportation operations are carried out through Trans Mountain Pipe Line Company Ltd. ("Trans Mountain") which owns and operates a common carrier pipeline system for crude and refined petroleum products and through Corridor Pipeline Limited ("Corridor") which has agreed to construct a pipeline in Northern Alberta to transport diluted bitumen.

Trans Mountain owns 10.7% (1998 — 10.7%) of the common shares of the Company. The cost of these shares is shown as a deduction from shareholders' equity.

These consolidated financial statements include the results of NW Energy (Williams Lake) Limited Partnership ("NW Energy") until October 19, 1999 (see note 9).

REGULATION

The Utility is subject to the regulation of the British Columbia Utilities Commission ("the Commission"). Trans Mountain's operations are regulated in Canada by the National Energy Board and, in the United States, tariff matters are regulated by the Federal Energy Regulatory Commission.

These regulatory authorities exercise statutory authority over such matters as rate of return, construction and operation of facilities, accounting practices, and rates and tolls. With respect to Corridor, these matters are governed by contractual arrangements with shippers and are subject to regulation by the Alberta Energy and Utilities Board.

INVENTORIES OF GAS IN STORAGE AND SUPPLIES

Inventories of gas in storage and supplies are valued at cost determined mainly on a moving-average basis.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost which includes all direct costs, betterments, an allocation of overhead costs and an allowance for funds used during construction.

Depreciation of regulated assets is provided on a straight-line basis on plant in service at rates approved by regulatory authorities. The cost of depreciable property retired, together with removal costs less salvage, is charged to accumulated depreciation.

Depreciation of non-regulated equipment is provided using the declining balance method. Depreciation of the electricity generating power plant was provided over 25 years at a rate that matched the rate at which revenues were recognized.

No provision for future removal and site restoration obligations has been accrued for regulated operations as the extent of such costs is not currently determinable. Management expects that such costs would be recoverable through future rates or tolls.

DEFERRED CHARGES

The Company defers certain charges which the regulatory authorities or contractual arrangements require or permit to be recovered through future rates or tolls. Deferred charges are amortized over various periods depending on the nature of the charges and include financing costs such as long-term debt issue costs which are amortized over the original lives of the related debt.

Deferred charges not subject to regulation relate to projects which may benefit future periods and will be capitalized on completion or expensed on abandonment of the projects. Amortization is provided on a straight-line basis over periods from 20 to 25 years.

Significant Accounting Policies

GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets represent the excess of the purchase price over the fair value of the net assets acquired. Goodwill is being amortized over 25 years and intangible assets over 20.5 years. Management reviews on an ongoing basis the valuation and amortization of goodwill and intangible assets taking into consideration any events and circumstances which might have impaired the net book value. Goodwill and intangible assets are written down when declines in value are considered to be other than temporary based upon expected undiscounted cash flows of the entity to which the goodwill and intangible assets relate.

RATE STABILIZATION ACCOUNTS

The Utility is authorized by the Commission to maintain two rate stabilization accounts to mitigate the effect on its earnings of unpredictable and uncontrollable factors, principally temperature and cost of natural gas fluctuations.

The gas cost reconciliation account ("GCRA") accumulates unforecasted changes in natural gas costs and natural gas cost recoveries. The revenue stabilization adjustment mechanism ("RSAM") accumulates the margin impact of variations in the actual use for residential and commercial customers from forecast use. The balances are amortized as ordered by the Commission.

REVENUES

Revenue from natural gas sales is recorded by the distribution utilities on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the reporting period.

Revenue for the Firm Energy Component from the sale of electricity was recognized as electricity was generated at rates established in an agreement between NW Energy and British Columbia Hydro and Power Authority ("BC Hydro"). The price that was paid by BC Hydro consisted of a monthly Firm Energy Component and other monthly components to recover certain operating costs subject to certain maximum amounts which were adjusted for inflation.

PENSION PLANS

The cost of pension entitlements earned by employees is determined annually by independent actuaries utilizing the projected benefit method prorated on services. This cost is expensed as services are rendered and reflects management's best estimates of expected plan investment performance, salary growth, future terminations, mortality rates and retirement ages of plan members. Adjustments which result from plan amendments, changes in assumptions and experience gains and losses are amortized over the expected average remaining service life of the employee group covered by the plan.

POST RETIREMENT BENEFITS OTHER THAN PENSIONS

The company provides certain health care and life insurance benefits to eligible retirees and their dependants. The cost of providing these benefits is expensed as paid which matches the recovery in rates.

INCOME TAXES

The Company's regulated subsidiaries account for income taxes for regulated operations as prescribed by their respective regulatory authorities. This includes following the taxes payable method of accounting for income taxes and accounting for certain assets and the rate stabilization accounts on a net-of-tax basis as approved by the Commission. Under the taxes payable method, deferred income taxes are not recorded for significant timing differences in reporting revenue and expenses for financial statement purposes and income tax purposes. This method is followed as there is reasonable expectation that all taxes payable in future years will be recoverable from customers at that time.

The Company and its other non-regulated subsidiaries provide for deferred income taxes for all significant timing differences.

SHARE BASED COMPENSATION

The Company has a common share option plan which is described in note 5. No compensation expense is recognized for the share option plan when the options are issued. Any consideration paid by employees on the exercise of the share option is credited to share capital while consideration paid to re-purchase share options from participants is charged to retained earnings, net of the related income taxes.

COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

Notes to Consolidated Financial Statements

(Tabular amounts in millions of dollars, except per share amounts)

Years Ended December 31, 1999 and 1998

1. PROPERTY, PLANT AND EQUIPMENT

1999

	Depreciation rates	Cost	Accumulated depreciation	Net book value
Natural gas and petroleum pipeline systems	**1% – 10%**	**$ 2,415.5**	**$ 531.1**	**$ 1,884.4**
Plant, buildings and equipment	**1% – 33%**	**303.7**	**118.4**	**185.3**
Land and land rights	**0% – 5%**	**86.2**	**1.2**	**85.0**
		$ 2,805.4	**$ 650.7**	**$ 2,154.7**

1998

	Depreciation rates	Cost	Accumulated depreciation	Net book value
Natural gas and petroleum pipeline systems	1% – 10%	$ 2,284.6	$ 480.7	$ 1,803.9
Plant, buildings and equipment	1% – 33%	283.7	98.7	185.0
Electricity generating power plant	4.2%	123.2	26.4	96.8
Land and land rights	0% – 5%	84.0	1.1	82.9
		$ 2,775.5	$ 606.9	$ 2,168.6

The composite depreciation rate on regulated property, plant and equipment for the year ended December 31, 1999 is approximately 3.0% (1998 – 3.0%).

2. OTHER ASSETS

	1999	1998
Deferred charges		
Subject to regulation	**$ 18.4**	$ 13.1
Not subject to regulation	**1.6**	16.0
	20.0	29.1
Goodwill and intangible assets	**1.7**	39.8
Long-term receivables and investments	**3.4**	3.7
	$ 25.1	$ 72.6

Notes to Consolidated Financial Statements

3. LONG-TERM DEBT

	1999	1998
BC GAS UTILITY LTD.		
(a) Purchase Money Mortgages		
11.80% Series A, due September 30, 2000 or September 30, 2015 if extended by holder	**$ 75.0**	$ 75.0
10.30% Series B, due September 30, 2016	**200.0**	200.0
(b) Debentures:		
9.75% Series D, due December 17, 2006	**20.0**	20.0
10.75% Series E, due June 8, 2009	**59.9**	60.0
8.50% Series F, due August 26, 2002	**100.0**	100.0
8.15% Series H, due July 28, 2003	**50.0**	50.0
(c) Medium Term Note Debentures:		
8.80% Series 5, due October 14, 1999	**—**	55.0
9.80% Series 6, due February 9, 2005	**40.0**	40.0
6.20% Series 9, due June 2, 2008	**188.0**	113.0
5.10% Series 10, due February 2, 2001	**50.0**	50.0
6.95% Series 11, due September 21, 2029	**150.0**	—
Various series, weighted average interest rate of 7.05% with maturities ranging from 2001 to 2005	**25.0**	25.0
(d) Preference Shares:		
7.10% Cumulative Redeemable Retractable First Preference Shares	**—**	75.0
Obligations under capital leases, weighted average interest rate of 6.43% (1998 – 6.66%)	**11.2**	7.0
	969.1	**870.0**
TRANS MOUNTAIN PIPE LINE COMPANY LTD.		
(e) Debentures:		
9.75% Series A, due February 18, 2002	**44.9**	44.9
10.75% Series B, due November 22, 2004	**30.0**	30.0
11.50% Series C, due June 20, 2010	**35.0**	35.0
	109.9	**109.9**
NW ENERGY (WILLIAMS LAKE) LIMITED PARTNERSHIP (NOTE 9)		
11.39% credit agreement	**—**	121.5
Agreements payable, non-interest bearing	**—**	0.1
	—	121.6
Total long-term debt	**1,079.0**	1,101.5
Less current portion of long-term debt	**77.2**	194.8
	$ 1,001.8	$ 906.7

(a) Purchase Money Mortgages

The Series A and Series B Purchase Money Mortgages are secured equally and rateably by a first fixed and specific mortgage and charge on the Utility's Coastal Division assets, and are subject to the restrictions of the Trust Indenture dated December 3, 1990. The aggregate principal amount of Purchase Money Mortgages that may be issued under the Trust Indenture is limited to $425 million.

(b) BC Gas Utility Debentures

The BC Gas Utility debentures are unsecured obligations but are subject to the restrictions of the Trust Indenture dated November 1, 1977, as amended and supplemented.

During 1999, holders of $59.9 million of the 10.55% Series E debentures originally due on June 8, 1999 exercised their option to extend them to June 8, 2009 at a rate of 10.75%.

Notes to Consolidated Financial Statements

(c) Medium Term Note Debentures

The Utility's Medium Term Note Debentures are unsecured obligations but are subject to the terms of the Trust Indenture dated November 1, 1977 (see note 3(b)).

(d) Preference Shares

On September 30, 1999, the Utility redeemed all of these preference shares at $25 per share plus accrued and unpaid dividends.

(e) Trans Mountain Debentures

The Trans Mountain debentures are unsecured obligations but are subject to the restrictions of the Trust Indenture dated February 18, 1987, as amended and supplemented.

The Utility's Series B Purchase Money Mortgages, Series F and Series H Debentures, and Series 11 Medium Term Note Debentures, and Trans Mountain's Series B and Series C Debentures are redeemable in whole or in part at the option of the Company at a price equal to the greater of the Canada Yield Price, as defined in the applicable Trust Indenture, and the principal amount of the debt to be redeemed, plus accrued and unpaid interest to the date specified for redemption. The Canada Yield Price is calculated as an amount that provides a yield slightly above the yield on an equivalent maturity Government of Canada bond.

Assuming the Series A Purchase Money Mortgages are not extended, required principal repayments over the next five years are as follows:

2000	$ 77.2
2001	72.2
2002	147.1
2003	52.2
2004	32.2

4. NON-CONTROLLING INTEREST

(a) Non-Controlling Interest in the Consolidated Statements of Financial Position

	1999	1998
6.32% cumulative redeemable first preference shares of the Utility, 3,000,000 shares issued	**$ 75.0**	$ 75.0

These shares are redeemable at the option of the Utility at $25 per share on or after October 31, 2000, and are exchangeable at the option of the Utility on or after October 31, 2000 for common shares of the Company at a price equal to the greater of $3 and 95% of the weighted average trading price of the common shares at that time.

The shares are exchangeable at the option of the holder on or after January 31, 2001 for common shares of the Company at a price equal to the greater of $3 and 95% of the weighted average trading price of the common shares at that time, subject to the right of the Utility to redeem the shares for cash or to find substitute purchasers for the preference shares.

(b) Non-Controlling Interest in the Consolidated Statements of Earnings

	1999	1998
Dividends on 6.32% preference shares of the Utility	**$ 4.7**	$ 4.7
Recovery of Part VI.1 tax	**—**	(0.1)
	$ 4.7	$ 4.6

Notes to Consolidated Financial Statements

5. CAPITAL STOCK

The Company is authorized to issue 750,000,000 common shares, 100,000,000 first preference shares and 100,000,000 second preference shares, all without par value.

Changes in the issued and outstanding common shares are as follows:

	1999		1998	
	Number	Amount	Number	Amount
Outstanding, beginning of year	**42,857,873**	**$ 363.0**	43,684,965	$ 369.7
Issued under:				
Share option plan	**5,080**	**0.1**	26,090	0.4
Payroll deduction employee share purchase plan	**8,752**	**0.2**	4,118	0.1
Shares repurchased	**–**	**–**	(857,300)	(7.2)
	42,871,705	**$ 363.3**	42,857,873	$ 363.0
Less common shares held by Trans Mountain	**4,592,094**		4,592,094	
Outstanding, end of year	**38,279,611**		38,265,779	

Share Option Plan

The Company has a Share Option Plan whereby officers, directors and certain employees may be granted options to purchase a maximum of 4,000,000 unissued common shares with terms up to ten years. The option exercise price is the closing sale price of the common shares on the Toronto Stock Exchange on the trading day prior to the date the option is granted. The Plan provides an optionee with the right, by notice in writing, to request the Company to purchase from the optionee for cash all or part of the vested options as specified in the notice at a price equal to the difference between the market price on the day the notice is received by the Company and the exercise price for those options. Upon receipt of notice requesting the Company to purchase the options from the optionee, the Company has the right to override the request and require the optionee to determine whether or not to exercise the option for unissued common shares. Options purchased by the Company are cancelled.

Two categories of options have been issued under the Share Option Plan:

(i) The Company has granted options with ten year terms which are exercisable on a cumulative basis at 20% per annum.

During 1999, options to purchase 71,770 (1998 – 379,383) common shares were purchased for $0.6 million (1998 – $2.9 million), net of income tax benefits of $0.4 million (1998 – $2.5 million), which has been charged to retained earnings.

(ii) The Company has also issued performance-based share options with eight year terms. One-third of the options vest in each of the first three years, subject to the market price of the Company's common shares reaching 125% of the option's exercise price for at least 10 out of 15 consecutive trading days within four years of the option grant date. If the market price requirement is not attained in the first four years, the optionee is still eligible to exercise two-thirds of the granted options if the common share price reaches 125% of the option's exercise price for at least 10 out of 15 consecutive trading days during the subsequent four years.

Notes to Consolidated Financial Statements

Changes in outstanding options during 1999 and 1998 and outstanding options for common shares at December 31, 1999 are as follows:

	1999		1998	
	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price
Outstanding, beginning of year	**1,041,145**	**$ 18.31**	1,301,138	$ 16.28
Granted during the year				
Regular	**6,750**	**29.29**	148,400	28.91
Performance-based	**295,650**	**26.94**	—	—
Exercised	**(5,080)**	**14.12**	(26,090)	15.13
Forfeited and expired	**—**	**—**	(2,920)	13.97
Re-purchased	**(71,770)**	**14.43**	(379,383)	15.36
Outstanding, end of year	**1,266,695**	**$ 20.60**	1,041,145	$ 18.31
Exercisable, end of year	**786,925**		648,629	

	Options outstanding			Options exercisable	
Year granted	Number of common shares	Weighted-average exercise price	Weighted-average remaining contractual life (years)	Number exercisable at year-end	Weighted-average exercise price
Regular					
1991	36,597	$15.75	1.5	36,597	$15.75
1992	40,520	16.38	2.5	40,520	16.38
1993	125,120	14.88	3.3	125,120	14.88
1994	111,620	14.13	4.5	111,620	14.13
1995	307,148	14.13	5.3	307,148	14.13
1996	20,040	16.63	6.4	13,320	16.66
1997	188,500	24.84	7.6	99,100	25.23
1998	136,500	28.91	8.1	52,500	28.92
1999	5,000	29.29	9.4	1,000	29.29
	971,045	18.67	5.6	786,925	16.88
Performance-based					
1999	295,650	26.94	7.4	—	—
	1,266,695	$20.60	6.0	786,925	$16.88

Shares Repurchased

In 1998 the Company repurchased 857,300 common shares for $25.6 million. In accordance with Canadian generally accepted accounting principles, capital stock was reduced in 1998 by $7.2 million, contributed surplus by $2.6 million and retained earnings by $15.8 million. During 1999, no common shares were repurchased.

Reserved for Issue

At December 31, 1999, the number of common shares reserved for issue to meet rights outstanding is as follows:

Under exchange indenture for 6.32% preference shares of the Utility	5,500,000
Under share option plan	1,455,530
Under dividend reinvestment and share purchase plan	2,062,576
Under payroll deduction employee share purchase plan	412,913
	9,431,019

Notes to Consolidated Financial Statements

6. PENSION PLANS

The Company has defined benefit pension plans available for employees. As at December 31, 1999, actuarial projections of employees' compensation levels to the time of retirement indicate that the present value of accrued pension benefits is $187.8 million (1998 – $173.0 million), and the market related value of the assets available to provide these benefits is $201.7 million (1998 – $179.3 million).

7. FINANCING COSTS

	1999	1998
Interest and expense on long-term debt	$ 96.2	$ 99.0
Other interest	22.4	18.6
Interest capitalized	(1.0)	(1.1)
	117.6	116.5
Dividends on 7.1% preference shares of the Utility	4.0	5.3
	$ 121.6	$ 121.8

8. INCOME TAXES

(a) Income Taxes on Earnings

	1999	1998
Current	$ 50.4	$ 61.5
Deferred	10.4	1.4
Reduction of income taxes due to utilization of prior years' losses	(4.9)	—
	$ 55.9	$ 62.9

(b) Variation in Effective Income Tax Rate

Consolidated income taxes on earnings vary from the amount that would be computed by applying the federal and British Columbia combined statutory income tax rate of 45.62% to earnings before income taxes and non-controlling interest as shown in the following table:

	1999	1998
Earnings before income taxes and non-controlling interest	$ 134.8	$ 138.7
Combined statutory income taxes in the Province of British Columbia	$ 61.5	$ 63.3
Add (deduct) tax effect of:		
Capital cost allowance and other deductions claimed for income tax purposes over amounts recorded for accounting purposes	(6.3)	(9.0)
Large Corporations Tax	5.0	4.8
Losses carried forward	—	1.7
Utilization of prior years' losses	(4.9)	—
Permanent differences between accounting and taxable income	1.8	1.6
Other	(1.2)	0.5
Actual consolidated income taxes on earnings	$ 55.9	$ 62.9

(c) Deferred Income Taxes

Accumulated deferred income taxes which have not been recorded in the accounts amount to $221 million at December 31, 1999 (1998 – $215 million).

Notes to Consolidated Financial Statements

9. NW ENERGY MONETIZATION

On October 19, 1999 the Company sold its interest in the cash flow of NW Energy, which owns a wood waste-fired independent electricity generating power plant, to TransCanada Power, L.P. The Company received net proceeds of $25.6 million which, along with income tax benefits that were recognized in 1999, resulted in a gain of $7.0 million. Additional income tax benefits of approximately $29.0 million relating to NW Energy are expected to be recognized during 2000. TransCanada Power will operate and manage the plant.

The carrying value of the assets and liabilities of NW Energy at October 19, 1999 were as follows:

Working capital	$ 6.3
Property, plant and equipment	96.0
Deferred charges	11.2
Goodwill and intangible assets	39.5
Long-term debt	(115.5)
Deferred income taxes	(11.7)
	$ 25.8

10. FINANCIAL INSTRUMENTS

(a) Fair Value of Financial Instruments

The carrying value of accounts receivable, bank indebtedness, short-term notes and accounts payable and accrued liabilities approximates their fair value due to the relatively short period to maturity of the instruments.

The fair value of the Company's long-term debt, calculated by discounting the future cash flow of each debt issue at the estimated yield to maturity for the same or similar issues at December 31, 1999, or by using available quoted market prices, is estimated at $1,204.4 million (1998 – $1,378.3 million). The majority of the Company's long-term debt relates to regulated operations which enables the Company to recover the existing financing charges through rates or tolls.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates cannot be determined with precision as they are subjective in nature and involve uncertainties and matters of judgment.

(b) Derivative Instruments

The Company uses derivative instruments to hedge its exposures to fluctuations in energy prices, interest rates and foreign currency exchange rates. These instruments are for terms of less than one year.

Natural gas derivatives are used to manage natural gas price risk in the natural gas distribution operations. The majority of the natural gas supply contracts of the natural gas distribution operations have floating prices for natural gas, rather than fixed prices. On behalf of customers, the Company uses natural gas price swap contracts to fix the effective purchase price. Any differences between the effective cost of natural gas purchased and the price of natural gas used for rate making purposes are managed through the regulatory process whereby differences are recorded in a deferral account and passed through to customers in future rates.

Within the natural gas distribution operations, interest rate and foreign currency risk is managed mainly through the regulatory process. As at December 31, 1999, $198 million (1998 – $190 million) of short-term borrowings in the natural gas distribution operations were subject to interest rate deferral accounts. Foreign currency risk in the natural gas distribution operations relates mainly to purchases and sales of natural gas denominated in U.S. dollars, and is thereby managed through the regulatory process.

Short-term borrowings in the petroleum transportation and other activities segments are exposed to interest rate risk. The only material foreign currency risk in those business segments relates to the U.S. portion of Trans Mountain's crude oil pipeline system. The petroleum transportation and other activities segments manage interest rate and foreign currency exposures through the use of interest rate and foreign currency derivatives.

The carrying values of natural gas derivatives at December 31, 1999 were a liability of $0.7 million (1998 – $4.7 million) and the fair values of the derivatives were a liability of $2.7 million (1998 – $4.6 million). The natural gas derivatives fair value reflects only the value of the natural gas derivatives and not the offsetting change in value of the underlying future purchases of natural gas. These fair values reflect the estimated amounts the Company would receive or pay to terminate the contracts at the stated dates. There were no significant foreign currency or interest rate derivatives outstanding at the end of 1999 or 1998.

Notes to Consolidated Financial Statements

The Company is exposed to credit risk in the event of non-performance by counterparties to derivative instruments. Because it deals with high credit quality institutions in accordance with its established credit approval practices, the Company does not expect any counterparties to fail to meet their obligations.

11. SEGMENT DISCLOSURES

The Company operates principally in two business segments:

(a) Natural gas distribution, primarily involving the transmission and distribution of natural gas for residential, commercial and large industrial customers in British Columbia; and

(b) Petroleum transportation, primarily involving the transportation of crude and refined petroleum products principally for seven major shippers from Alberta to the west coast of British Columbia and Washington state.

The Company has other activities which include non-regulated energy and utility services as well as corporate interest and administration charges. The non-regulated services include international consulting, multi-utility supply and services, retail energy services and, to October 19, 1999, independent power production of NW Energy. The Company also operates in the United States. At the present time, these operations are not of sufficient size to be reportable as operating or geographic segments.

1999	Natural gas distribution	Petroleum transportation	Other activities	Total
Revenues	**$ 844.7**	**$ 129.4**	**$ 66.5**	**$ 1,040.6**
Depreciation and amortization	**62.5**	**14.9**	**5.2**	**82.6**
Operating income	**192.7**	**48.4**	**15.3**	**256.4**
Financing costs	**87.5**	**14.8**	**19.3**	**121.6**
Income taxes (recovery) on earnings	**48.8**	**14.1**	**(7.0)**	**55.9**
Income tax benefits from NW Energy	**—**	**—**	**(7.0)**	**(7.0)**
Net earnings	**51.7**	**19.5**	**10.0**	**81.2**
Earnings per common share	**1.35**	**0.51**	**0.26**	**2.12**
Total assets	**2,045.6**	**373.6**	**31.3**	**2,450.5**
Capital expenditures	**133.8**	**24.8**	**5.0**	**163.6**

1998	Natural gas distribution	Petroleum transportation	Other activities	Total
Revenues	$ 742.4	$ 135.4	$ 47.2	$ 925.0
Depreciation and amortization	61.4	16.1	7.1	84.6
Operating income	194.4	52.1	14.0	260.5
Financing costs	86.8	15.0	20.0	121.8
Income taxes (recovery) on earnings	51.1	14.2	(2.4)	62.9
Net earnings (loss)	51.8	22.9	(3.5)	71.2
Earnings (loss) per common share	1.35	0.59	(0.09)	1.85
Total assets	1,945.5	356.5	164.1	2,466.1
Capital expenditures	110.5	16.9	1.3	128.7

12. COMMITMENTS

(a) The Utility and Trans Mountain have entered into operating leases in respect of their head office and other premises. Minimum payments under these leases are on average approximately $8.9 million in each of the next five years and $90.3 million in aggregate.

(b) The Utility has received approval from the Commission to construct the Southern Crossing pipeline and related compression facilities in southern British Columbia at an estimated cost of $376 million. As part of that approval, the Company has committed that costs of the project exceeding $376 million plus 10% or $414 million will not be recoverable from customers.

(c) The Company has committed to construct the Corridor pipeline at an estimated cost of $688 million.

Consolidated Financial Statement Information (Five Years)

Unaudited

(Dollar amounts in millions)

Years Ended December 31	**1999**	1998	1997	1996	1995
Statements of Earnings					
Operating revenue	**$ 1,040.6**	$ 925.0	$ 933.9	$ 901.4	$ 894.9
Operating expenses	**784.2**	664.5	689.9	670.1	693.9
Operating income	**256.4**	260.5	244.0	231.3	201.0
Other expenses	**121.6**	121.8	137.8	89.7	128.2
Income taxes	**48.9**	62.9	49.6	32.1	22.6
Non-controlling interest	**4.7**	4.6	5.8	3.9	2.7
Net earnings	**$ 81.2**	$ 71.2	$ 50.8	$ 105.6	$ 47.5
Assets					
Current assets	**$ 270.7**	$ 224.9	$ 188.9	$ 305.2	$ 234.6
Property, plant and equipment (net)	**2,154.7**	2,168.6	2,116.1	2,062.6	2,056.8
Other assets	**25.1**	72.6	83.1	59.3	75.9
Total assets	**$ 2,450.5**	$ 2,466.1	$ 2,388.1	$ 2,427.1	$ 2,367.3
Liabilities and Shareholders' Equity					
Current liabilities	**$ 712.4**	$ 858.1	$ 696.7	$ 648.2	$ 673.4
Long-term debt	**1,001.8**	906.7	993.3	1,033.9	1,003.9
Other liabilities	**110.0**	111.3	109.9	114.3	120.1
Shareholders' equity	**626.3**	590.0	588.2	630.7	569.9
Total liabilities and shareholders' equity	**$ 2,450.5**	$ 2,466.1	$ 2,388.1	$ 2,427.1	$ 2,367.3
Cash Flow Data					
Operating cash flow	**$ 124.1**	$ 80.2	$ 170.6	$ 166.8	$ 106.7
Capital expenditures	**$ 163.6**	$ 128.7	$ 130.0	$ 145.7	$ 178.6

Operating Information (Five Years)
Unaudited

(Dollar amounts in millions)

Years Ended December 31	**1999**	1998	1997	1996	1995
Natural Gas Distribution Operations					
Revenues					
Residential	**$ 493.2**	$ 423.1	$ 431.1	$ 405.5	$ 405.3
Commercial	**262.2**	226.3	246.9	231.3	241.6
Small industrial	**26.7**	22.5	17.3	14.7	14.5
Large industrial and other	**8.8**	19.1	19.7	19.4	25.9
Total natural gas sales revenue	**$ 790.9**	$ 691.0	$ 715.0	$ 670.9	$ 687.3
Transportation	**38.4**	33.6	28.6	33.9	28.1
Other	**15.4**	17.8	22.2	19.5	20.1
Total natural gas revenue	**$ 844.7**	$ 742.4	$ 765.8	$ 724.3	$ 735.5
Natural gas volumes (billion cubic feet)					
Sales volumes	**121.8**	117.1	123.0	129.5	119.4
Transportation volumes	**57.6**	52.1	52.0	53.0	50.8
Total natural gas volumes	**179.4**	169.2	175.0	182.5	170.2
Customers at year end	**756,090**	742,305	732,316	716,421	699,012
Petroleum Transportation Operations					
Revenues	**$ 129.4**	$ 135.4	$ 129.1	$ 132.8	$ 114.0
Transportation volumes (m^3/day)					
Canadian mainline	**32,988**	40,160	36,523	39,681	35,554
Jet fuel deliveries	**3,196**	3,260	3,279	3,358	2,841
Total throughput	**36,184**	43,420	39,802	43,039	38,395
U.S. mainline (included in Canadian mainline)	**9,847**	16,128	15,004	16,294	13,293
Kilometres of pipelines					
Natural gas distribution operations	**36,581**	36,473	35,971	35,335	34,401
Petroleum transportation operations	**1,477**	1,477	1,477	1,477	1,477
Employees (consolidated)	**1,869**	1,819	1,979	1,965	1,979

Consolidated Financial Information (Five Years)

Unaudited

Years Ended December 31	**1999**	1998	1997	1996	1995
Ratios					
Return on average shareholders' equity	**12.2%**	12.1%	10.7%	10.3%	8.6%
Dividend payout ratio	**0.55**	0.59	0.77	0.36	0.77
Interest coverage ratio	**2.11**	2.14	2.13	1.83	1.57
Debt/debt plus shareholders' equity ratio	**0.71**	0.73	0.71	0.69	0.72
Common shares outstanding – weighted average (millions)	**38.3**	38.5	40.1	41.8	41.0
Data Per Common Share					
Earnings before non-recurring items	**$ 1.94**	$ 1.85	$ 1.63	$ 1.48	$ 1.18
Earnings after non-recurring items	**$ 2.12**	$ 1.85	$ 1.27	$ 2.53	$ 1.16
Dividends	**$ 1.165**	$ 1.090	$ 0.975	$ 0.900	$ 0.900
Operating cash flow	**$ 3.24**	$ 2.08	$ 4.25	$ 3.99	$ 2.60
Equity	**$ 16.36**	$ 15.42	$ 15.05	$ 15.28	$ 13.70
Market price range – High	**$ 31.40**	$ 34.00	$ 28.00	$ 21.15	$ 16.00
– Low	**$ 20.45**	$ 25.50	$ 20.10	$ 15.00	$ 13.13
– Close	**$ 25.40**	$ 30.50	$ 27.80	$ 20.30	$ 16.00

Quarterly Financial Information

Unaudited

(In millions, except where stated otherwise)

	Three months ended				Year ended
1999	March	June	September	December	December
Revenues	**$ 339.8**	**$ 202.7**	**$ 156.2**	**$ 341.9**	**$ 1,040.6**
Net earnings (loss)	**$ 51.6**	**$ (0.4)**	**$ (12.8)**	**$ 42.8**	**$ 81.2**
Data per common share					
Earnings (loss)	**$ 1.35**	**$ (0.01)**	**$ (0.34)**	**$ 1.12**	**$ 2.12**
Dividends paid	**$ 0.280**	**$ 0.295**	**$ 0.295**	**$ 0.295**	**$ 1.165**
Common share trading – TSE					
High	**$ 31.40**	**$ 30.85**	**$ 30.70**	**$ 27.25**	**$ 31.40**
Low	**$ 26.75**	**$ 27.10**	**$ 25.30**	**$ 20.45**	**$ 20.45**
Close	**$ 27.25**	**$ 30.10**	**$ 27.25**	**$ 25.40**	**$ 25.40**
Volume	**3.6**	**2.8**	**1.5**	**3.5**	**11.4**
Common shares outstanding – weighted average	**38.3**	**38.3**	**38.3**	**38.3**	**38.3**
1998					
Revenues	$ 313.2	$ 183.3	$ 137.4	$ 291.1	$ 925.0
Net earnings (loss)	$ 51.9	$ (1.5)	$ (13.6)	$ 34.4	$ 71.2
Data per common share					
Earnings (loss)	$ 1.33	$ (0.03)	$ (0.35)	$ 0.90	$ 1.85
Dividends paid	$ 0.250	$ 0.280	$ 0.280	$ 0.280	$ 1.090
Common share trading – TSE					
High	$ 31.65	$ 33.90	$ 34.00	$ 32.75	$ 34.00
Low	$ 25.50	$ 29.90	$ 28.00	$ 28.25	$ 25.50
Close	$ 30.30	$ 31.85	$ 28.85	$ 30.50	$ 30.50
Volume	4.0	3.0	6.8	2.2	16.0
Common shares outstanding – weighted average	38.9	38.7	38.6	38.5	38.5

Glossary

Bitumen
A hydrocarbon liquid of high density and viscosity. In Alberta, it is usually associated with oil sands deposits and when extracted it is too viscous to be transported by pipeline at normal ambient conditions.

British Columbia Utilities Commission
A provincially appointed body that regulates the potential earnings, business operations and practices of several B.C. utilities.

Btu
British thermal unit. The amount of energy required to raise the temperature of one pound of water one degree Fahrenheit.

Core Market
Generally refers to non-industrial and non-utility purchasers of natural gas and includes residential, commercial and institutional (i.e.: hospitals, universities) purchasers of natural gas.

Demand Charge
The portion of the cost of transportation that is payable on the full contracted capacity regardless of whether or not the space is used.

Demand Side Management (DSM)
Utility programs designed to influence the customer's energy consumption. Such programs include reducing gas consumption through efficiency and conservation, load shaping programs to reduce peak load and/or increase off peak load, and programs to encourage fuel substitution.

Diluent
A hydrocarbon liquid of low density and viscosity. It is usually blended with raw bitumen to create a fluid which can be transported by pipeline at normal ambient conditions.

Gigajoule (GJ)
0.95 thousand cubic feet of natural gas at 1,000 Btu per cubic foot or 0.28 megawatt hours of electricity. Terajoule (TJ) is one thousand gigajoules and petajoule (PJ) is one million gigajoules.

In Situ
Production of oil sands bitumen utilizing steam or other thermal methods to reduce the viscosity of the product, allowing it to flow to the surface through wells. This method is used when the overburden is too thick to allow conventional mining methods.

Interruptible Customers
Gas customers who choose low priority service, usually at lower rates under schedules or contracts that anticipate and permit interruption of gas service on short notice, generally in peak load seasons.

Intervenor
An active participant in a hearing, typically representing one or a group of customers.

Multi-Utility
In the future, one service provider will deliver multiple utilities, including natural gas, water and electricity. Advances in technology will also allow for metering of different commodities through one meter.

National Energy Board
A federal regulatory body that oversees interprovincial and international oil and gas pipelines, as well as the export and import of electricity, oil and gas.

Peak Shaving
The process of supplying gas to a utility system from an auxiliary source, such as storage or liquefied natural gas, during periods of maximum demand to reduce the load or demand on the primary source of supply, usually a pipeline.

Rate Base
The investment in plant in service and working capital on which utilities earn a rate of return to compensate shareholders and holders of the utility debt.

Revenue Requirement
The total revenues to be generated by rates in order to recover the costs of providing service.

Ship or Pay
Contractual arrangements whereby capacity is paid for whether or not it is used.

Shippers
Entities holding transportation contracts on pipelines which require payment of tolls.

TCF
Trillion (10^{12}) cubic feet of natural gas.

Tolls
The rates charged by pipeline companies under tariffs approved by regulatory bodies for such services as raw gas transmission, processing and transportation.

Transportation
A gas delivery service provided by a pipeline or local gas utility company to customers who purchase natural gas directly from producers or brokerage companies.

Metric To Imperial Conversions

1 GJ =	0.9482 MMBtu
1 10^3m^3 =	35.301 MCF
1 m^3 =	6.290 Barrels
1 km =	0.6214 miles

Board of Directors

L. I. (Larry) Bell
West Vancouver, British Columbia
President and Chief Executive Officer, Shato Holdings Ltd.

Robert G. Brodie
Barbados
Chairman, Cardiff Properties Limited

Thomas A. Buell
Delta, British Columbia
Corporate Director

Brian A. Canfield
Point Roberts, Washington, U.S.A.
President and Chief Executive Officer, TELUS

Donald A. Carlson
Edmonton, Alberta
President, Carlson Development Corporation Ltd.

Marilyn E. Cassady
Vancouver, British Columbia
Corporate Director

Ronald L. Cliff, C.M., FCA
West Vancouver, British Columbia
Chairman of the Board, BC Gas Inc.

Mark L. Cullen
Vancouver, British Columbia
President, Mark Cullen & Company Ltd.

David L. Emerson
Vancouver, British Columbia
President and Chief Executive Officer, Canfor Corporation

Iain J. Harris
Vancouver, British Columbia
Chairman and Chief Executive Officer, Summit Holdings Ltd.

Robert E. Kadlec
West Vancouver, British Columbia
Chairman and Chief Executive Officer, Bentley Capital Corp.

John M. Reid, FCA
Vancouver, British Columbia
President and Chief Executive Officer, BC Gas Inc.

Robert T. Stewart
West Vancouver, British Columbia
President, R. T. Stewart & Associates

David W. Strangway
Vancouver, British Columbia
President, Canada Foundation for Innovation

Douglas W. G. Whitehead
Coquitlam, British Columbia
President and Chief Operating Officer, Finning International Inc.

BC Gas Inc. directors are also directors of BC Gas Utility Ltd. and Trans Mountain Pipe Line Company Ltd.

COMMITTEES OF THE BOARD

Executive Committee

R. L. Cliff *(Chair)*,
I. J. Harris, J. M. Reid and R. T. Stewart

Exercises all the powers of the Directors (except for certain significant decisions reserved by the Board of Directors) in overseeing the management and direction of the Company during intervals between Board meetings.

Audit Committee

I. J. Harris *(Chair)*,
B. A. Canfield, M. L. Cullen, D. L. Emerson and R. E. Kadlec

Acts on behalf of the Board in reviewing certain financial information prepared for public distribution and in monitoring internal accounting controls. The Committee is responsible for assuring that the Company's financial statements accurately portray the financial condition of the Company and for providing reasonable assurances that the Company is in compliance with applicable laws and regulations, is conducting its affairs ethically and maintains effective controls. The Committee also recommends the appointment, change or reappointment of auditors.

Corporate Governance Committee

R. T. Stewart *(Chair)*,
R. G. Brodie, T. A. Buell, M. L. Cullen and D. W. Strangway

Ensures that an effective and efficient approach to corporate governance is developed and implemented, with the objective of assuring the business and affairs of the Company are carried out in a manner that will enhance shareholder value. In consultation with the Chairman of the Board, the Committee is responsible for identifying, evaluating and recommending nominees for the Board of Directors.

Environment and Safety Committee

M. E. Cassady *(Chair)*,
L. I. Bell, T. A. Buell, D. A. Carlson, I. J. Harris and D. W. G. Whitehead

Reviews and approves corporate environmental policy, evaluates the Company's progress in implementing the policy, reviews relevant data and reports, brings information and recommendations to the attention of the Board as appropriate.

Management Resources Committee

L. I. Bell *(Chair)*,
B. A. Canfield, R. L. Cliff, R. E. Kadlec, D. W. Strangway and D. W. G. Whitehead

Ensures the Company has a plan for continuity of its officers and an executive compensation plan that is motivational and competitive in order to attract, hold and inspire the performance of Executive Management and other key personnel. The intent of the Committee is to enhance the profitability and growth of the Company through effective succession planning.

Officers

BC GAS INC.

Ronald L. Cliff, C.M., FCA
Chairman of the Board

John M. Reid, FCA
President and Chief Executive Officer

Gordon R. Barefoot
Senior Vice President, Planning & Development

Michael A. Sharp
Senior Vice President, Residential Customers

Milton C. Woensdregt
Senior Vice President, Finance and Chief Financial Officer, and Treasurer

Donald C. Fairbairn
Vice President, Business Development

David M. Masuhara
Vice President and Secretary

Debra G. Nelson
Assistant Corporate Secretary

BC GAS UTILITY LTD.

Ronald L. Cliff, C.M., FCA
Chairman of the Board

John M. Reid, FCA
President and Chief Executive Officer

Randall L. Jespersen
Senior Vice President, Energy Delivery Services

Patrick D. Lloyd
Senior Vice President, Business Technologies & Support

Michael A. Sharp
Senior Vice President, Residential Customers

Milton C. Woensdregt
Senior Vice President, Finance and Chief Financial Officer, and Treasurer

Mary E. Bruce
Vice President, Human Resources

Ronald J. Jupp
Vice President, Distribution Operations

Jan A. Marston
Vice President, Gas Supply & Transportation Services

David M. Masuhara
Vice President, Legal, Regulatory & Logistics, and Secretary

O. B. (Bruce) Newton
Vice President, Operations Support

Duncan S. Vickers
Vice President, Information & Communications Technology

Debra G. Nelson
Assistant Corporate Secretary

TRANS MOUNTAIN PIPE LINE COMPANY LTD.

Ronald L. Cliff, C.M., FCA
Chairman

John M. Reid, FCA
Vice Chairman

Thomas D. Doyle
President

John L. Fingarson
Vice President, Secretary and General Counsel

Michael R. Horner
Vice President, Corridor Pipeline Project

Liisa A. O'Hara
Vice President, Financial Services & Regulatory Affairs

Robert D. Vergette
Vice President, Operations

Milton C. Woensdregt
Treasurer

Michael W. P. Boyle
Corporate Solicitor and Assistant Secretary

Cheryl L. Berge
Controller and Assistant Treasurer

Investor Information

ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders will be held at 11:00 a.m. on Wednesday, April 26, 2000 in the Park Ballroom of the Four Seasons Hotel in Vancouver, British Columbia.

DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN

Registered holders of the Company's Common shares (except residents of the United States) may elect to reinvest their cash dividends in new Common shares. Participants in the Plan may also make optional cash payments of up to $20,000 per calendar year to purchase additional Common shares. Optional cash payments must be received by the Registrar and Transfer Agent by the last days of January, April, July and October to be reinvested on the following dividend payment date. There are no brokerage commissions payable on shares purchased pursuant to the Plan. For an information package on the Plan, or to register in the Plan, please contact Shareholder Relations.

EMPLOYEE SHARE PURCHASE PLAN

Employees of BC Gas Utility Ltd. may contribute from 2% to 6% of their earnings through payroll deductions to purchase the Company's Common shares. Shares are purchased at 100% of the market price.

COMMON SHARE DISTRIBUTION

The following table summarizes the distribution of shares at December 31, 1999.

	Shareholders	*Shares*
Canada	7,420	42,539,146
USA	107	291,155
Others	29	41,404
Total	7,556	42,871,705

COMMON SHARE OWNERSHIP CONSTRAINTS

In accordance with the statute that privatized the Company, the following constraints on BC Gas Inc. share ownership exist: (i) the total number of voting shares held by any one person or associated persons shall not exceed 10% of the total number of issued and outstanding voting shares; and (ii) non-Canadian citizens and non-residents of Canada will not be permitted to hold or beneficially own in the aggregate, directly or indirectly, more than 20% of the total number of the issued and outstanding voting shares of the Company.

Valuation Day Value (December 22, 1971)
Common Shares[1] $6.50
February 22, 1994 Closing Price, $15.50

[1]*Adjusted for the two-for-one stock split on November 18, 1985.*

REGISTRAR AND TRANSFER AGENT

Shareholder accounts, including dividend payments, direct deposit service and the transfer of shares are handled by the Company's registrar and transfer agent:

CIBC Mellon Trust Company
16th Floor, 1066 West Hastings Street
Vancouver, B.C. V6E 3X1
Telephone: (604) 688-4330
Toll Free: 1-800-387-0825
Fax: (604) 688-4301
Web site: www.cibcmellon.com

DUPLICATE ANNUAL AND INTERIM REPORTS

To eliminate duplicate mailings of annual and quarterly reports, please contact CIBC Mellon Trust Company.

SHARES LISTED (Symbol: BCG)

The Toronto Stock Exchange

SCHEDULED DIVIDEND PAYMENT DATES

February 29, 2000
May 31, 2000
August 31, 2000
November 30, 2000

CORPORATE OFFICES

BC Gas Inc. and BC Gas Utility Ltd.
1111 West Georgia Street
Vancouver, B.C. V6E 4M4
Main Telephone: (604) 443-6500

Trans Mountain Pipe Line Company Ltd.
Suite 900-1333 West Broadway
Vancouver, B.C. V6H 4C2
Telephone: (604) 739-5000

SHAREHOLDER RELATIONS

Inquiries regarding the Company's Dividend Reinvestment and Share Purchase Plan and all other inquiries or comments by shareholders regarding the Company should be directed to:

Debra Nelson
Telephone: (604) 443-6559
Toll Free: 1-800-667-9177
Fax: (604) 443-6904
E-mail: shareholder@bcgas.com

INVESTOR RELATIONS

Portfolio managers, investment analysts and other investors requesting financial information regarding BC Gas should contact:

David Bryson
Telephone: (604) 443-6527
Fax: (604) 443-6929
E-mail: ir@bcgas.com

INTERNET

Web site: www.bcgas.com

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CONTACT US AT:

Shareholder Relations

Toll-free: 1-800-667-9177

e-mail: shareholder@bcgas.com

Investor Relations

e-mail: ir@bcgas.com

OR VISIT OUR WEB SITE AT:

www.bcgas.com

BC Gas Inc.™